The Committee will meet at 9.30 am in Committee Room 5.

1. **Discussion of taking items in private**: The Committee will decide whether to take items 7 and 8 in private.

2. **National Planning Framework 2**: The Committee will consider its approach to National Planning Framework 2.

3. **Progress on research**: The Committee will consider research on the impact of the credit crunch on the Scottish economy.

4. **Business in the Parliament Conference 2008**: The Committee will discuss feedback from the 2008 conference and plans for the 2009 event.

5. **Scottish Enterprise**: The Committee will discuss further supplementary written evidence received from Scottish Enterprise.

6. **Scottish Council of Economic Advisers**: The Committee will discuss whether it wishes to invite representatives of the Scottish Council of Economic Advisers to give evidence in the autumn.

7. **Budget process 2009-10 – appointment of adviser**: The Committee will consider a list of candidates for the post of adviser to assist with its scrutiny of the Scottish Government’s Draft Budget 2009-10.

8. **Energy Technologies Institute inquiry**: The Committee will discuss a draft report.

9. **Tourism inquiry - Growing pains: can we achieve a 50% growth in tourist revenue by 2015? (in private)**: The Committee will discuss a draft report.

Stephen Imrie
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The papers for this meeting are as follows—

**Agenda Item 2**

Paper by the Clerk

Paper by SPICe

**Agenda Item 3**

Paper by SPICe

**Agenda Item 4**

Paper by the Clerk

**Agenda Item 5**

Further supplementary evidence

**Agenda Item 7**

Paper by Clerk and SPICe – PRIVATE PAPER

**Agenda Item 8**

Draft Report – PRIVATE PAPER

**Agenda Item 9**

Draft Report - PRIVATE PAPER (to follow)
Background

1. The Planning etc. (Scotland) Act 2006 (the Act) provided a statutory framework for the National Planning Framework (NPF), which sets out “in broad terms how the Scottish Ministers consider that the development and use of land could and should occur”. The Act includes a requirement for the NPF to include a strategy for Scotland’s special development and a statement of what the Scottish Ministers consider to be priorities for that development.

2. The development of NPF2 was initiated by the former Scottish Executive and has been continued by the current Scottish Government. The consultation on the NFP2 Discussion Draft was launched in January 2008, with the consultation period closing on 15 April 2008. The Scottish Government is currently analysing the responses with a view to producing a final draft NPF2. The Scottish Government has indicated that it plans to lay the final draft before Parliament in autumn 2008.

3. Under the Act, Parliament has a period of 60 days to consider the NPF and “In preparing or revising the framework, the Scottish Ministers are to have regard to any resolution or report of, or of any committee of, the Scottish Parliament made, during the period for Parliamentary consideration, as regards the proposed framework.”

4. As this will be the first time that the NPF has been laid before Parliament, there is no established model for parliamentary consideration of the NPF and there has been no formal decision by the Parliament on the process that should be followed. However, the Economy, Energy and Tourism Committee may have an interest in considering NPF2 in terms of its links to the economy and energy elements of the Committee’s remit.

5. The SPICe briefing included with the committee papers includes more information on NPF2. Notably, the discussion draft identifies contributing to a wealthier and fairer Scotland by supporting sustainable economic growth and improved competitiveness and connectivity as one of the four key aims for development in Scotland until 2030. In addition, reinforcements to the electricity grids are one of the nine major projects which the Government wishes to designate as ‘national developments’.
Decision

6. The Committee is invited to—

- decide, in principle, if it wishes to take evidence on NPF2 following the summer recess;

- identify any specific aspects of NPF2 which it has an interest in taking evidence on and suggest any witnesses that the Committee might wish to hear from;

- delegate the final decision on witnesses and scheduling for evidence sessions to the Convener and Deputy Convener in conjunction with the clerk in light of the eventual decision by Parliament on the format for parliamentary consideration of NPF2. Members will be free to make any suggestions via the clerk.

Stephen Imrie
Clerk to the Committee
20 June 2008
The National Planning Framework for Scotland

Introduction

This short briefing outlines the role and contents of the current National Planning Framework (NPF) which was published by the previous Scottish Executive during April 2004. It goes on to summarise the key changes to the status of the NPF introduced by the Planning etc. (Scotland) Act 2006 and summarises some of the key points included in the discussion draft of the National Planning Framework for Scotland 2 (NPF2) published by the Scottish Government on 9 January 2008. Finally, it examines the development and adoption process for NPF2.

The National Planning Framework: The current NPF is a non-statutory Scotland-wide planning policy document, published by the Scottish Executive on 1 April 2004.

Role: The role of the NPF, as defined in its introduction, is:

…to guide the spatial development of Scotland to 2025…It is not intended to be a prescriptive blueprint, but will be a material consideration in framing planning policy and making decisions on planning applications and appeals. It will be taken into account by the Executive and its agencies in policy and spending decisions.

Margaret Curran MSP, then Communities Minister, further defined the role of the NPF in its foreword as follows:

It is a planning document that analyses the underlying trends in Scotland's territorial development, the key drivers of change and the challenges we face. Describing an issue in spatial or territorial terms does not remove the dilemmas we face in policy and spending decisions. The framework is, however, one of the factors we will take into account in coming to difficult decisions on policy and spending priorities as well as providing a context for development plans and planning decisions.

Content: The current NPF does not identify any specific developments, development sites or Scottish Government expenditure commitments. The NPF provides a description of Scotland in 2004, identifies key issues and drivers of change, sets out a vision for Scottish development to 2025 and identifies priorities and opportunities for different parts of the country.

The NPF is split into four sections, the contents of which are briefly summarised below:
1. Scotland Today: This chapter describes key characteristics of Scotland today, focusing on physical geography, population issues, housing, economic development and transport.

2. Key Issues and Drivers of Change: This chapter focuses on a series of issues including sustainable development, population and demographic change across Scotland, issues of place as communications technologies allow different patterns of working, community regeneration, development of the national infrastructure including energy, transport, waste management, water and drainage, affordable housing and new technologies.

3. Scotland 2025: This section focuses on the Executive’s three key aims for development in Scotland until 2025, namely:

- increasing economic growth and competitiveness
- promoting social and environmental justice
- promoting sustainable development and protecting and enhancing the quality of natural and built environments

4. Spatial Perspectives: This chapter identifies priorities and opportunities for different parts of the country in spatial perspectives for the Central Belt, East Coast, Ayrshire and the South-West and Rural Scotland. The perspectives address spatial planning issues of national importance which cut across city region and local government boundaries, providing a context for planning by local authorities.

In addition the NPF also includes a strategy map, which provides a summary of information contained in the Scotland 2025 chapter, including the identification of key areas of change where co-ordinated action is needed in the national interest.

Development of the Current NPF: The groundwork for the NPF was laid when Sam Galbraith MSP, then Minister responsible for planning, announced in November 2000 that the Scottish Executive intended to undertake a review of strategic planning. The Scottish Executive published a consultation, entitled Review of Strategic Planning, in June 2001, which outlined proposals for changes to the strategic planning system. The responses to this consultation were analysed in the Review of Strategic Planning – Conclusions and Next Steps published in June 2002, this document also outlined the Executive’s initial proposals for changes to strategic planning. Among the proposals outlined was the publication of a non-statutory NPF, to cover the period up until 2025.

During the development of the NPF, the Executive held two series’ of stakeholder workshops. The first round of workshops aimed to identify the issues that the NPF might address. The second round aimed to identify whether the emerging NPF was meeting the aspirations of the key stakeholders. These seminars were supplemented by a series of bilateral meetings between the Executive and public and private sector groups and
presentations to MSPs and councillors. There was no general public consultation on the NPF.

The NPF was subject to a pilot strategic environmental assessment (SEA) prepared before the new EU Directive on strategic environmental assessment came into effect. The main aims of a strategic environmental assessment are to identify, predict, report and mitigate the environmental impacts of plans and programmes.

The Executive states that as a result of the SEA the text of the NPF was amended “...to place greater emphasis on our landscape and biodiversity assets and the strategic opportunities for environmental improvement offered by areas of change.” However, as a framework document much of the potential environmental impact of the NPF will flow from the implementation of its policies. To ensure that the environmental impact of NPF policies are minimised, further environmental assessment work will have to be carried out on local authority development plans and individual major developments.

Adoption of the Current NPF: As a non-statutory strategy document there was no legislative process for adopting the NPF. The launch of the NPF was announced by Margaret Curran MSP, then Communities Minister, in a statement to Parliament on 1 April 2004. The Parliament had no formal involvement in the development or adoption of the NPF.

The Planning etc. (Scotland) Act 2006

The Planning etc. (Scotland) Act 2006 provides a statutory basis for the NPF. Section 1 of the 2006 Act describes the role of the NPF as:

…to set out in broad terms how the Scottish Ministers consider that the development and use of land could and should occur.

To do this the legislation requires the NPF to include a strategy for the spatial development of Scotland and a statement of Scottish Ministers priorities for that development. The NPF may also include information or policies on land use related matters and list any number of “national developments” along with Ministers’ justification as to why each national development merits that designation. The 2006 Act does not include a definition of what should constitute a national development, rather it is left to the discretion of Scottish Ministers to decide which developments fall into this category.

The Cabinet Secretary for Finance and Sustainable Growth set out the criteria Ministers would use in designating national developments in a statement to Parliament on 13 September 2007. Projects to be identified as national developments would have to meet one or more of the following criteria:

• make a significant contribution to Scotland’s sustainable economic development
• strengthen Scotland’s links to the rest of the world
• deliver strategic improvements in internal connectivity
• make a significant contribution to the achievement of climate change, renewable energy or waste management targets
• are essential elements of a programme of investment in national infrastructure
• raise strategic issues of more than regional importance.

The 2006 Act also requires Scottish Ministers to publish a participation statement prior to the development or review of the NPF. This statement should set out the consultation process that will be followed throughout the development or review process. Scottish Ministers can either update the NPF every 5 years or choose not to update it and publish an explanation as to why they have decided not to update it.

The NPF cannot be formally adopted by Scottish Ministers without it completing a 60 day period of parliamentary consideration. During this period the Scottish Parliament and/or its Committees will consider the contents of the draft NPF and, subject to Parliamentary agreement, publish report(s) or pass a resolution on the NPF. Scottish Ministers are required to “have regard to any resolution or report of, or any committee of, the Scottish Parliament made, during the period for Parliamentary consideration”.

The 2005 Act requires Scottish Ministers to exercise their NPF functions “…with the objective of contributing to sustainable development”.

National Planning Framework 2: The development of NPF2 was begun by the previous Scottish Executive during early 2007 and continued by the current administration. This section examines the role, content, development and adoption processes for NPF2.

Role: The role of NPF2, as defined in its introduction, is to:

…guide Scotland’s spatial development to 2030, setting out strategic development priorities to support the Scottish Government’s central purpose - promoting sustainable economic growth

Content: The content of NPF2 is broadly similar to that in the original NPF, although it has been updated and/or expanded to reflect the change in administration and new policies, plans and organisations introduced since the publication of the NPF in 2004. The most important new addition is the section relating to national developments, which lists nine potential developments.

The layout of the NPF2 broadly follows that of the original NPF, although a separate, expanded section on infrastructure, which was previously included in the Key Issues and Driver for Change section, has been created.

The contents of the five chapters of NPF2 can be summarised as follows:
1. **Scotland Today:** This chapter describes key characteristics of Scotland today, focusing on physical geography, population issues, the economy, housing, transport, energy, waste and broadband access.

2. **Key Issues and Drivers of Change:** This chapter focuses on a series of issues including economic strategy, sustainable development, population, regeneration, Scotland’s place in the world, transport and land use, energy, waste management and new technologies.

3. **Scotland 2030:** This section focuses on the Government’s four key aims for development in Scotland until 2030, namely:

- to contribute to a wealthier and fairer Scotland by supporting sustainable economic growth and improved competitiveness and connectivity
- to promote a greener Scotland by contributing to the achievement of climate change targets and protecting and enhancing the quality of the natural and built environments
- to help build safer, stronger and healthier communities, by promoting improved opportunities and a better quality of life
- to contribute to a smarter Scotland by supporting the development of the knowledge economy.

4. **Infrastructure:** This new section identifies nine major projects which the Government wishes to designate as “national developments”, these are:

   1. Replacement Forth Crossing
   2. Edinburgh Airport expansion
   3. Glasgow Airport expansion
   4. Grangemouth Freight Hub
   5. Rosyth International Container Terminal
   6. Scapa Flow Container Transhipment Facility
   7. Electricty grid reinforcements
   8. Glasgow Strategic Drainage Scheme

   In addition it looks at the development of Scotland’s transport, energy, waste management, water and drainage and communications infrastructure networks.

5. **Spatial Perspectives:** This chapter identifies priorities and opportunities for different parts of the country in spatial perspectives for the Central Belt, East Coast, Highlands and Islands, Ayrshire and the South-West and South of Scotland. The perspectives address spatial planning issues of national importance which cut across city region and local government boundaries, providing a context for planning by local authorities.

   In addition the NPF also includes strategy maps and an appendix which provides a description of each of the proposed national developments and the justification for their designation.
Development and adoption of NPF2: Preparation of NPF2 began in earnest with the publication of the first Participation Statement by the then Scottish Executive on 1 February 2007. This set out how the Scottish Executive intended to engage with interested parties in the development of NPF2. The development of NPF2 is currently ongoing, as explained in the summary of the NPF2 development process below:

- Initial engagement on the scope and content of NPF2: This ran from February 2007 until October 2007. Work during this period included the establishment of an NPF2 website, stakeholder meetings, seminars and the establishment of an advisory committee.
- NPF2: Discussion Draft and associated Strategic Environmental Assessment: Consultation on the draft NPF2 ran from 9 January 2008 until 15 April 2008. In addition to a call for written evidence the Scottish Government ran a series of five NPF2 conferences around the country, met with key stakeholders and held other participation events in an attempt to gather views on the content of NPF2.
- Revision in the light of reaction to the discussion draft NPF2: This work is currently ongoing.
- Parliamentary scrutiny: It is anticipated that the parliamentary draft of NPF2 will be laid following the summer recess. The Parliament will have 60 days to consider the draft NPF2. It is likely that the Local Government and Communities Committee will take the lead in consideration of the NPF2 and that there will be a debate in the Chamber. However, this is yet to be agreed by the parliamentary bureau.
- Final consideration and publication of NPF2: Scottish Ministers are required to have regard to any reports or resolutions of the Parliament and its committees and to report on how they have taken account of these. The final version of NPF2 will be published, which is likely to happen either late in 2008 or during 2009.
- Monitoring and evaluation: This is an ongoing task.

Spatial Strategies Elsewhere in the UK

Scotland was not the first country or major region in the UK to develop a country/region wide spatial strategy, Greater London and Northern Ireland had adopted such strategies prior to the publication of the NPF. More recently Wales has also adopted a spatial strategy. The following section briefly examines what is covered by these strategies, how the policies in them are developed and what processes they go through prior to adoption.

London

Greater London has been the subject of a city wide plan since the 1940’s. The most recent London wide spatial strategy is The London Plan, the final adopted version of which was published during February 2004. The Mayor of London is required to produce a spatial development strategy for London under the provisions of Part VIII of the Greater London Authority Act 1999. This Act sets out the general content of the strategy, the requirement for
consultation during policy development and places a duty on the Mayor to hold an examination in public into the strategy prior to its adoption, unless the Secretary of State directs otherwise. A more detailed description of the contents of the strategy, policy development process, relationship between the strategy and London Borough’s Unitary Development Plans and the Mayor’s role in the planning process is set out in the Government Office for London’s Circular 1/2000 (Department of the Environment, Transport and the Regions 2000).

Content and role of the London Plan: The functions of the current London Plan are to:

- set out an integrated social, economic and environmental framework for the future development of London over a period of 15 to 20 years
- integrate the physical and geographic dimensions of the Mayor’s other strategies
- provide the London wide context within which individual boroughs must set their local planning policies
- set the policy framework for the Mayor’s involvement in major planning decisions
- set out proposals for implementation and funding
- provide London’s response to European guidance on spatial planning and a link to European Structural Funds.

Development of the current London Plan: The development of the current London Plan followed a process similar to that of a Scottish Structure Plan. The process can best be described as following five distinct stages:

- **Stage 1: Initial consultation:** An initial consultation document published setting out a vision for London and the broad policy directions which would guide the preparation of the draft plan.
- **Stage 2: Analysis of Responses:** The results to that consultation, and the Mayor’s response to those, are set out in an analysis of the responses.
- **Stage 3: Draft Plan:** Draft plan published, accompanied by a sustainability appraisal. Draft plan subject to a statutory three-month consultation period.
- **Stage 4: Examination in Public:** The responses to the draft plan, and the Mayor's views concerning these responses, were considered by a government-appointed panel at an Examination in Public, which reported to the Mayor.
- **Stage 5: Finalised Plan.** The London Plan will be subject to an ongoing process of monitoring and managing change. A report on the implementation of the plan is to be published annually.

Northern Ireland

The Northern Ireland Department for Regional Development (DRD) published its regional spatial strategy, Shaping our Future 2025, during December 2001. The DRD is required to produce a regional development strategy under the
The Strategic Planning (Northern Ireland) Order 1999 (HMSO 1999). This Order does not set out any detailed consultation requirements and does not place the DRD under a duty to hold a public inquiry into the Plan; rather it allows the Department to hold an inquiry "where it considers it appropriate".

Content and role of the Northern Ireland spatial strategy: The functions of the current Northern Ireland spatial strategy are to:

- provide a strategic planning framework for strengthening the regional economy and tackling social disadvantage.
- protect and enhance Northern Ireland’s physical, natural and man-made assets
- provide a spatial framework for transport, air and water quality, energy and waste strategies, and for infrastructure providers and public service promoters
- provide an overarching framework for Development Plans, and to guide public and private investment decisions relating to land use.

Development of the current Northern Ireland spatial strategy: The Northern Ireland spatial strategy follows a five stage development and adoption process similar to that used in London.

- **Stage 1: Initial consultation**: Following initial work by civil servants, academics and private consultants an initial discussion document was issued, which set out proposals for a Draft Regional Strategic Framework
- **Stage 2: Consultation**: The DRD undertook a major consultation exercise, with a special emphasis on involving young people.
- **Stage 3: Draft Plan**: Draft regional strategic framework published, followed by a further period of consultation.
- **Stage 4: Examination in Public**: Examination in public held into responses to the draft strategy followed by further consultation, including involvement of Northern Ireland Assembly committees.
- **Stage 5: Finalised Plan**: Final regional development strategy published.

The strategy is required to be reviewed every five years, with a view to identifying necessary amendments. The first of the five year reviews was completed recently. The NI Executive is considering what amendments to make to the strategy in the light of the review process.

Wales


…set out such of the policies (however expressed) of the National Assembly for Wales as it thinks appropriate in relation to the development and use of land in Wales
Other than this very general direction, the 2004 Act gives the Welsh Assembly Government considerable scope over the content and development of the strategy. The 2004 Act requires that the strategy is approved by the Welsh Assembly.

Content and role of the Wales Spatial Plan: The functions of the current Wales Spatial Plan are to:

- Provide a clear framework for future collaborative action involving the Welsh Assembly Government and its agencies, local authorities, the private and voluntary sectors
- Influence the location of expenditure by the Welsh Assembly Government and its agencies
- Influence the mix and balance of public sector delivery agencies’ programmes in different areas
- Set the context for local and community planning
- Provide a clear evidence base for the public, private and voluntary sectors to develop policy and action

Development of the current Wales Spatial Plan: The Wales Spatial Plan followed a less formal development and adoption process than the Northern Irish and London strategies.

- Local and national stakeholder consultation events take place to establish key themes for the proposed Plan
- Consultation draft of the Wales Spatial Plan published, consultation ran for approximately four months
- Summary and analysis of consultation responses from companies, NGOs, business organisations and individuals published
- Final version of Plan published
- The Wales Spatial Plan was approved, by vote following a plenary debate, at the National Assembly for Wales’ meeting of 17 November 2004.

The Welsh Assembly Government recently completed a consultation, which ran from 31 January 2008 until 24 April 2008, with a view to updating the Wales Spatial Plan. The responses have been considered by the Welsh Assembly Government and an updated version of the Plan will be submitted to the Welsh Assembly for approval later this year.

Irish National Development Plan 2007-2013

The Irish Government also produces a National Development Plan which guides government investment for a 7 year period. The most recent Plan was published on 23 January 2007.

Content and role of the National Development Plan: The most recent Irish National Development Plan sets out four basic objectives:
• to continue sustainable national economic and employment growth
• to strengthen and improve Ireland’s international competitiveness
• to foster balanced Regional Development
• to promote Social Inclusion

The Plan is very different to the UK spatial strategies in that it identifies specific developments (both physical and social) to be undertaken by the national government, local government and the private sector. In addition it sets out the strategic direction for the development of Ireland over a 7 year period.

The plan has a large budget directly attached to it (euro 184bn) with funding directly attached to individual projects.

**Development of the current Irish National Development Plan:** The Irish National Development Plan is the responsibility of the Department of Finance, although programmes are managed by a designated “managing authority”, normally a Government department or agency, with individual projects being implemented by an “implementing body” which can be a national or local government body.

There is no legislative basis to the Plan, similar to the original NPF, which means that the Irish Government can undertake whatever consultations they consider appropriate during its development. However, as many of the projects have involved an element of EU funding the Irish Government has had to ensure that these projects met the consultation and scrutiny requirements attached to these awards.

The outcomes of the previous plans have been the subject of ongoing scrutiny by an independent evaluation unit, funded by the Department of Finance.

Alan Rehfisch
Senior Research Specialist
SPICe
IMPACT OF THE CREDIT CRUNCH ON THE SCOTTISH ECONOMY AND THE SCOTTISH HOUSING MARKET

KATE BERRY AND JIM DEWAR

This briefing has been prepared at the request of the Economy, Energy and Tourism Committee. It:

- outlines the origin and global nature of the current credit crunch
- assesses the impact on the Scottish economy to date with particular reference to the housing market
- considers possible implications for the Scottish housing market and the Scottish economy over the next two years

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KEY POINTS

- A credit crunch is a reduction in the availability of loans or a sudden increase in the cost of obtaining loans.
- The cause of the current credit crunch is generally accepted to be linked to losses in the sub prime mortgage market in the United States. However, its origins may be traced back to monetary and fiscal policy in the early years of this decade.
- Because many loans made to US house buyers were packaged and sold on to investors and financial institutions in other countries, the problems caused by sub-prime lending have not been confined to the US but been spread around the world.
- Banks have become reluctant to lend to each other and have reduced lending to corporate and household borrowers in an attempt to strengthen their balance sheets.
- The reluctance of banks to lend is having a direct effect on the demand for products which depend on borrowed money with consequences for economic growth. As these effects work their way through the economy, there are likely to be second-order effects as consumers become less confident and more reluctant to incur debt.
- Growth forecasts for most major economies have been revised downwards by the Organisation for Co-operation and Development (OECD).
- The evidence to date of any impact of the credit crunch on the Scottish economy is mixed. GDP growth remained above trend in 2007 Q4 but construction and the financial services sectors saw quarterly declines in output during 2007. Employment is at historically high levels and the claimant count is low. However, the latter has begun to edge upwards since January.
- In response to the credit crunch, mortgage lenders have reduced the range of mortgage products available and have tightened their lending criteria. This seems to be resulting in a slowdown in the housing market in terms of the volume, and value, of sales.
- The latest house price data shows that house prices are still rising year on year although the rate of house price inflation has reduced markedly from 2004. It is likely that the credit crunch will exacerbate the slowdown in house price inflation. It has been argued that Scottish house prices will not decrease at the same rate as at the UK level largely because of the relative affordability of housing in Scotland.
- The affordability of housing has been declining in the last few years. First time buyers have found it particularly hard to access the market. The current restricted range of mortgage products available to meet first time buyers needs may further restrict the ability of first time buyers to access the market. This may have a consequent effect on those wishing to move up the property ladder.
- The Council of Mortgage Lenders is predicting a rise in the number of households that will experience problems in repaying their mortgage this year and in the number of repossessions. However, it is too early to assess the full extent of this.
- Independent forecasters have revised down their forecasts for the Scottish economy but are still predicting growth of 1.5–2.0% in 2008 and 2009 followed by faster growth in 2010.
INTRODUCTION

The term ‘credit crunch’ is used to describe the circumstance where borrowing becomes substantially more difficult. It started to feature in headlines and the financial sections of the media in the summer of 2007 when banks began announcing substantial losses from writing down the value of debt linked to mortgage lending in the United States. The resulting loss of confidence in financial institutions led to an unwillingness by banks to lend to each other and some banks found they were unable to access sufficient funds to maintain previous lending levels.

A major British mortgage provider, Northern Rock, which had been heavily reliant on borrowing in the wholesale market, had to approach the Bank of England for temporary funds. When news of this became public there was a run on the bank as depositors withdrew their money. This exacerbated the problem for Northern Rock and further discouraged banks from lending to each other. The loss of liquidity in the banking system resulted in lending institutions reducing their lending and setting more demanding conditions for borrowers, particularly in the mortgage market.

The cause of the credit crunch therefore is generally accepted to be linked to losses in the sub prime mortgage market in the United States. However its origins may be traced back to monetary and fiscal policy in the early years of this decade particularly in the US, the large US trade deficit, the equally large Chinese trade surplus and the large cross border flows of funds linked to the trading of complex financial products.

CENTRAL BANK INTEREST RATES

Figure 1 charts movements in the US Federal Reserve Funds Rate, the Bank of England’s Official Bank Rate and the European Central Bank (ECB) Minimum Bid Rate since 2000. These are the rates which these monetary authorities set with a view to ensuring that there are sufficient funds available to allow the economy to function and grow without creating undue inflationary pressures.

During 2001 interest rates set by all three monetary authorities were reduced sharply, initially in response to the end of the dot com boom and the recession which ensued and then as a...
response to the attack on the World Trade Centre. At that time inflationary pressures were low thanks to increasing supplies of Chinese manufactured goods, rapid technological innovation and stable or falling commodity prices.

US Federal Reserve rates, which in January 2001 were at a ten year high of 6.5%, were reduced rapidly, reaching 1% by summer 2003. This historically low rate persisted for over a year before being increased to reach 5.25% in 2006. Rates have again been brought down rapidly as problems with sub-prime lending and the credit crunch have emerged and rates are again at historically low levels.

The Bank of England Official Bank rate was reduced to a low of 3.5% in the summer of 2003 but then rates were increased reaching 5.75% in July 2007. Since the emergence of the credit crunch there have been three rate cuts bringing interest rates back down to 5.0%. However this remains above the rates which have prevailed for most of the last six years and crucially the London Interbank Overnight Rate (LIBOR), the rate at which banks lend to each other has been at historically high levels above base rate. This means that even as the Bank of England reduces base rate the rate at which companies and individuals has increased.

Rates set by the ECB were reduced from a peak of 4.75% at the start of 2001 to 2% during 2003 and stayed at that level for over two years before climbing steadily to reach their current level of 4%.

**US HOUSE PRICES**

During the period of low interest rates many people in the United States on relatively low incomes were persuaded to take out a mortgage to buy a house in the expectation that the cost of servicing the loan would be less than the cost of renting with the added attraction of a capital gain. This increase in demand duly led to rising house prices which, initially at least, tended to lead to a further increase in demand which further fuelled house price rises.

Figure 2 charts American house prices from Jan 2000 to March 2008 as measured by the Standard and Poors Case-Shiller Home Price Index. The index tracks changes in the value of residential properties in 20 metropolitan regions across the United States by comparing the price obtained for individual properties on resale with the price originally paid. The figure shows prices in money terms and real terms using the US GDP implicit price deflator.

![Figure 2: S&P/Case – Shiller House Price Index Jan 2000 = 100](source: Standard and Poors (2007); US Bureau of Economic Analysis)
Between 2000 and 2006 house prices as recorded by the index more than doubled reaching a peak in July 2006. Adjusting for general price inflation prices rose by 75% in real terms. The five fold increase in interest rates between June 2004 and June 2006 and more stringent lending conditions duly had an effect on demand. Since summer 2006 house prices have fallen by 17% in money terms and nearly 20% in real terms. Despite these reductions, prices in real terms are still about 40% above the level prevailing at the start of the decade.

GLOBAL IMPACTS

Because many of the loans made to US house buyers were packaged and sold on to investors and financial institutions in other countries the problems caused by sub-prime lending in the US have spread around the world. This has also spread the losses beyond the US but the opaque and complex way in which the loans were packaged has made it difficult to assess the level of exposure of individual financial institutions. As a result banks have become reluctant to lend to each other and banks which have incurred losses have reduced lending to corporate and household borrowers in an attempt to strengthen their balance sheets.

The reluctance of banks to lend is having a direct effect on the demand for products such as investment goods and houses which are frequently purchased with borrowed money. The price of these assets has tended to fall and as these effects work their way through the economy there are likely to be second order effects as consumers become less confident and more reluctant to incur debt. This in turn will have consequences for retail sales and expenditure particularly on discretionary purchases such as restaurant meals, holidays and replacement furniture and cars.

The most recent Economic Outlook by the Organisation for Co-operation and Development (OECD, 2008) shows a downward revision in growth forecasts for most major economies. Table 1 compares forecasts made by the OECD in December 2007 and the latest forecasts published in June 2008. Without exception growth forecasts have been revised down with the greatest revisions being for the developed economies in 2009. The figures do not show any major economy experiencing a recession and India and China are still forecast to grow strongly.

<table>
<thead>
<tr>
<th>Table 1: OECD Forecasts of GDP Growth 2008 and 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Forecast</td>
</tr>
<tr>
<td>Dec 2007</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>USA</td>
</tr>
<tr>
<td>Euro area</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>UK</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>India</td>
</tr>
</tbody>
</table>

Source: OECD (2008)

IMPACT TO DATE ON THE SCOTTISH ECONOMY

GROSS VALUE ADDED

The evidence to date of any impact of the credit crunch on the Scottish economy is mixed. The latest GDP figures (Scottish Government, 2008a) show that Scottish Gross Valued Added (GVA) grew by 0.9% in the fourth quarter of 2007 and by 2.2% in 2007 on 2006 which is slightly above the ten year trend of around 2.0% per annum. However, it is unlikely that the credit crunch would have become apparent in output data during 2007.

providing research and information services to the Scottish Parliament
Within sectors it is notable that construction, which accounts for almost 7% of total Scottish GDP and grew strongly between 2001 and 2006, has declined for five successive quarters and by 2007 Q4 was 4.6% below the peak reached in 2006 Q3. Financial services, accounting for over 8% of GDP and also one of the fastest growing sectors in recent years, declined in 2007 Q2 and Q3 but recovered a little in Q4. Nonetheless Financial Services output for the year increased by 2% on the previous year.

LABOUR MARKET
The workforce in employment (Figure 3) has continued to rise through to March 2008 (latest data) reaching the highest level ever although the rate of increase has slowed over the last year.

![Figure 3: Scottish Workforce in Employment (seasonally adjusted)](image)


The claimant count (Figure 4), although measuring only a subset of those unemployed or seeking work, provides a more up to date indicator of the labour market.

![Figure 4: Scottish Claimant Count (seasonally adjusted)](image)

Over the last eight years the trend has been strongly downwards. The seasonally adjusted figure hit a low of 68,500 in January but has risen in each of the last four months to 70,700 in May 2008.

RETAIL SALES
The Scottish Retail Consortium (2008) reported that like for like retail sales in April were only 0.2% up on April 2007. However the picture is distorted by Easter being in March this year. Comparing total sales i.e. including sales from new outlets and combining March and April figures a different picture emerges with total sales up by around 6% on March/April 2007. This compares with around 1% for the UK.

PURCHASING MANAGERS INDEX: SCOTLAND REPORT
The latest PMI (Purchasing Managers Index) Scotland Report (Royal Bank of Scotland, 2008) presents a more pessimistic picture. The report is based on a survey of over 600 companies operating in Scotland in manufacturing and the private services sector. Table 2 summarises the data for the last six months.

<table>
<thead>
<tr>
<th>Table 2: PMI Scotland Index Summary</th>
<th>Dec-07</th>
<th>Jan-08</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output</td>
<td>52.9</td>
<td>53.8</td>
<td>53.1</td>
<td>51.4</td>
<td>48.3</td>
<td>46.8</td>
</tr>
<tr>
<td>New Business</td>
<td>52.6</td>
<td>51.0</td>
<td>50.7</td>
<td>49.1</td>
<td>46.6</td>
<td>46.1</td>
</tr>
<tr>
<td>Backlog of work</td>
<td>48.9</td>
<td>45.7</td>
<td>47.5</td>
<td>47.3</td>
<td>45.5</td>
<td>44.2</td>
</tr>
<tr>
<td>Employment</td>
<td>51.9</td>
<td>51.8</td>
<td>52.3</td>
<td>50.6</td>
<td>49.8</td>
<td>48.6</td>
</tr>
<tr>
<td>Input Prices</td>
<td>61.5</td>
<td>64.9</td>
<td>64.7</td>
<td>67.9</td>
<td>69.7</td>
<td>70.2</td>
</tr>
<tr>
<td>Output Prices</td>
<td>55.7</td>
<td>56.5</td>
<td>55.1</td>
<td>57.4</td>
<td>57.3</td>
<td>57.3</td>
</tr>
</tbody>
</table>

Source: PMI Scotland Report June 2008
Note: An index reading above 50 indicates an increase on the previous month, below 50 a reduction and exactly 50 means no change.

The figures indicate that output has been declining for the last two months with the rate of decline accelerating in May, the rate of new business has been in decline since March, the backlog of work has been declining since December 2007 and employment has been declining since April. At the same time a majority of firms have been reporting higher input and output prices with the numbers reporting higher input prices increasing rapidly since February.

HOUSE BUILDING
To the extent that the credit crunch reduces the availability and increases the cost of mortgages then this can be expected to exert a downward pressure on house prices. This in turn would be expected to have some effect on house building and consumer confidence with consequences for the wider economy. However, as Figure 5 shows, the rate of house building in Scotland has not increased dramatically since the mid-nineties and has declined in each of the last two years despite house prices having been at historically high levels.
The next section of this paper examines the impact of the credit crunch on the Scottish housing market in more detail.

**IMPACT TO DATE ON THE SCOTTISH HOUSING MARKET**

One of the main impacts of the credit crunch to date is the declining range of mortgage products available and the more stringent lending criteria that lenders are imposing on borrowers. This has resulted in a slowdown in the number of mortgage approvals. The rate of house price inflation has also been slowing down reflecting the increased uncertainty in the market and the reduced availability of credit. The following section provides information on recent and longer terms trends in the Scottish housing market.

**HOUSE PRICES**

Table 3 provides Q1 2008 data on house prices from key sources.¹

<table>
<thead>
<tr>
<th></th>
<th>Average House Price Scotland</th>
<th>Scotland Quarterly Change</th>
<th>Scotland Annual Change</th>
<th>Average House Price UK</th>
<th>UK Quarterly Change</th>
<th>UK Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide</td>
<td>£149,834</td>
<td>-0.1%</td>
<td>6.3%</td>
<td>£179,363</td>
<td>-1.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Bank of Scotland</td>
<td>£145,531</td>
<td>0.2%</td>
<td>5.3%</td>
<td>£194,893</td>
<td>-1.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Registers of Scotland</td>
<td>£150,257</td>
<td>-5.1%</td>
<td>7.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Communities and Local Government</td>
<td>£162,834</td>
<td>-1.16%</td>
<td>8.2%</td>
<td>£218,251</td>
<td>-0.24%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>


As Table 2 shows average house prices in Scotland are between £145,000 and £163,000. Scotland’s average house prices are between 27% and 34% lower than the UK average.

¹ See SPICe briefing *House Prices (updated)* (Berry 2007) for an overview of sources.
Although the average house price in Scotland is below the UK average, the annual house price inflation rate, at between 5.3% and 7.6%, is higher than the UK annual average inflation rate. Both Nationwide and Halifax data suggest that Scotland’s annual house price inflation rate is 4 percentage points higher than the UK as a whole. The rate of house price inflation has been slowing in Scotland, falling from around 10% at Q4 2007 and from the peak of around 26% in February 2004 (Scottish Government 2007).

Regional house price data tends only to be available on a quarterly basis but the latest monthly data from the Nationwide suggests that UK wide houses prices fell by 2.5% during May. According to the Nationwide prices have fallen for seven months in a row, the longest consecutive period of monthly falls since 1992. Despite these recent falls UK average house prices are still 5% higher than two years ago (Nationwide 2008b). It is useful to consider the longer term house price trends in more detail.

**Long Term House Price Trends**

Figure 6 shows the average house price in Scotland compared to London, England and the UK, since 1972.

Figure 6 shows that prices in Scotland were relatively stable the 1970s, 80s and 90s compared to the rest of the UK and in particular Greater London. The graph also shows a marked rise in prices UK wide from 2000, with a slight lagged effect in Scotland where prices started to rise rapidly from 2002 onwards. Since 2002 house prices in Scotland have risen by 82%. The main drivers of these steep rises have been economic growth, the wide availability of credit, low interest rates and low inflation rates.
House Prices - Geographical Variations

Table 4 and Figure 6 conceal wide geographical variations in house prices throughout Scotland. Various statistics suggest that the Lothians, and Edinburgh in particular, is the most expensive place to buy a house in Scotland. Table 4 provides regional data from the Nationwide.

### Table 4: Scotland Regional House Prices Q1 2008

<table>
<thead>
<tr>
<th>Nationwide Sub-Regions</th>
<th>Price in Q1 2008</th>
<th>Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen City</td>
<td>£226,021</td>
<td>13%</td>
</tr>
<tr>
<td>Aberdeenshire and Moray</td>
<td>£164,535</td>
<td>18%</td>
</tr>
<tr>
<td>Dunbartonshire &amp; North Lanarkshire</td>
<td>£152,975</td>
<td>4%</td>
</tr>
<tr>
<td>Dundee &amp; Angus</td>
<td>£157,019</td>
<td>14%</td>
</tr>
<tr>
<td>Edinburgh City</td>
<td>£254,202</td>
<td>8%</td>
</tr>
<tr>
<td>Fife</td>
<td>£140,239</td>
<td>3%</td>
</tr>
<tr>
<td>Glasglow City</td>
<td>£171,639</td>
<td>6%</td>
</tr>
<tr>
<td>Highlands &amp; Islands</td>
<td>£151,063</td>
<td>7%</td>
</tr>
<tr>
<td>Lothian &amp; Falkirk</td>
<td>£159,597</td>
<td>7%</td>
</tr>
<tr>
<td>Perthshire &amp; Stirling</td>
<td>£159,280</td>
<td>2%</td>
</tr>
<tr>
<td>Renfrewshire &amp; Inverclyde</td>
<td>£165,353</td>
<td>6%</td>
</tr>
<tr>
<td>South Lanarkshire</td>
<td>£145,774</td>
<td>9%</td>
</tr>
<tr>
<td>Southern Scotland</td>
<td>£140,164</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Nationwide (2008a)

Table 4 shows that, in Q1 2008, Edinburgh was the most expensive place to buy a house in Scotland, where the average price of £254,202 was 81% higher than the least expensive region of Southern Scotland. Table 4 also highlights the differing rates of house price growth throughout Scotland. Although Edinburgh is the most expensive area to buy, prices have increased 8% in a year, which is lower than the 18% rise in the Aberdeenshire & Moray region.

**AFFORDABILITY**

While house prices have risen substantially from around 2001 affordability indicators suggest that it is only in the last few years that affordability has worsened.

Affordability is sometimes referred to in terms of the average house price to the average income. However, it may be more useful to consider mortgage servicing costs to incomes as this will better reflect the pressures on household budgets.

Figure 7 shows mortgage interest payments as a % of median income for both home movers and first time buyers (FTBs).
Figure 7 illustrates that over a 20 year period housing was at its least affordable in the early 1990s. However, following reductions in interest rates and real house prices, affordability improved. From the late 1990s to 2003 there was no major change in monthly mortgage servicing costs, despite the rapid increase in house prices, and affordability improved from 2003-2004. But from 2005 mortgage servicing costs started to rise and by Q1 2008 home movers spent 16.3% of their income on mortgage servicing costs – a 16 year high. Similarly, first time buyers (FTBs) spent 18.0% of their income on mortgage servicing costs – a 17 year high. It has been argued that:

“This suggests that, in contrast to behaviour earlier in the decade, consumer demand for house purchase has been somewhat insensitive to increasing credit costs from 2004.” (Scottish Government 2007)

In considering the geographical variations in affordability it has been suggested that the Lothians and the Highland areas are consistently amongst the least affordable areas in Scotland. Around the Edinburgh area 30% of working households are unable to afford the cheapest properties available (Scottish Government 2007).

**First Time Buyers**

The declining affordability of housing has particularly impacted on FTBs. As Figure 7 shows, the usual pattern is for home movers to spend a greater proportion of their income on servicing mortgage costs. However, since 2003 this trend has reversed and FTBs now spend more of their income servicing mortgages than home movers.
Increasing problems with affordability has been reflected in FTBs accounting for a lower share of the mortgage market. At Q4 (2007) FTBs accounted for 36% of all mortgage completions in Scotland, down from 49% in 2000 (Scottish Government 2008). FTBs are also putting down larger deposits when buying a house. FTB deposits as a proportion of household income have risen from 12% in 2000 to 35% in 2006 (an average of £2,500 to £9,000) (Scottish Government 2007). This means that FTBs either have to save for longer or borrow from family or friends.

The ability of FTBs to access the housing market in the future will depend on the future direction of house prices, average incomes and inflation rates but also on the availability of mortgages to suit their needs.

MORTGAGE LENDING

In response to the credit crunch mortgage lenders have reduced the number of mortgage products available and have tightened their lending criteria. At the beginning of the year there were 7,931 mortgage products available but at the end of April there were just 3,906, a drop of nearly 50% (Moneyfacts 2008). All major mortgage lenders have now withdrawn their 100% mortgage products, and fewer are offering 95% loan to value ratio products. These changes may further restrict the ability of FTBs to access the housing market and this may have a consequential effect on those wishing to move up the property ladder.

Figures 8 and 9 show the volume and value of mortgage lending in Scotland.

**Figure 8: Number of Loans for House Purchase Scotland**

![Graph showing number of loans for house purchase in Scotland from 1989 to 2005.](source: CML (2008a))
Figure 8 indicates a substantial increase in the number of loans issued for house purchase in Scotland since the late 1990s. From 2002 the average number of loans issued each year started to decline. Despite this fall in the number of loans, the value of loans has continued to increase, as Figure 9 shows. In 2007 £11,711m worth of loans were issued in Scotland – a record year.

In June 2007 the Scottish Government’s Housing Market Review commented that,

“This increase in the gross value of mortgage approvals, despite increased mortgage servicing costs, indicates that demand driven by housing market momentum may be increasingly augmenting demand stimulated by improved fundamentals, economic and financial. As both house prices and interest rates rise, there is a risk that some house purchasers may be engaging in the market on the expectation or assumption of continued price rises, rather than basing decisions purely based on the current prices and their underlying housing preferences”. (Scottish Government 2007)

However, it may be that now the credit crunch is affecting house purchasers’ behaviour and there is less of a risk that some house purchasers may be engaging in the market on the expectation of continued price rises.

The housing market in Scotland is slowing down. In Q1 2008 the number of loans issued for house purchase declined by 20% from Q1 2007. Over the same period the value of loans fell by 16.6% (CML 2008a). The Registers of Scotland collates statistics on all residential sales, including sales for cash not involving a mortgage. The latest statistics show that the number of sales registered in Jan-March 2008 showed a decrease of 16.1% compared to the same quarter last year (from 32,791 to 27,501). The total value of sales across Scotland registered during the quarter was £4.1 billion which is a decrease of 9.9% over the same quarter last year. There tends to be a slight time lag between the sale of the property and the sale being registered so this illustrates a decline in volume and value of sale towards the end of 2007 (ROS 2008).
Special Liquidity Scheme

The Bank of England has instigated measures to improve the liquidity position of the banking system and increase confidence in financial markets. On April 21 the Governor of the Bank of England announced a special liquidity scheme (Bank of England 2008b) which allows lenders to temporarily swap assets for government bonds for up to three years. The primary aims of this are to improve the liquidity of banks and to lower the current high level of wholesale money rates relative to the Bank rate. The Council of Mortgage Lenders (CML) has commented that:

“...But this is only likely to take effect slowly, and in conjunction with the further disclosure and writing down of impaired and illiquid assets (and repairs to balance sheets and capital ratios). So, although the conditions for an easing of the credit crunch are falling into place, it is likely to be some time before there is a measurable improvement in terms of an easing in the availability and terms of mortgage credit. Indeed, we expect only a modest improvement, at best, in the availability of mortgage credit before the end of this year”. (CML 2008b)

THE BUY TO LET HOUSING MARKET

At this stage it is unclear how the credit crunch will affect the buy to let market in Scotland. Analysis of this sector is more difficult because of a lack of comprehensive Scottish data. There are UK wide statistics available on the number of buy to let mortgages available from the CML. However, there will be other buy to let investors in the sector who purchase without the need for a mortgage and there will be established investors who have no outstanding mortgage debt. Across the UK the buy to let mortgage market has risen rapidly in the last few years as illustrated in Figure 10.

Figure 10: Number of Buy to Let Mortgage Advances UK 1999-2007

![Figure 10: Number of Buy to Let Mortgage Advances UK 1999-2007](image)

Source: CML (2008c) Table MM6

Figure 10 illustrates the rise in the number of buy to let gross advances for house purchase to a record 346,000 in 2007 – a rise of 87% since 1999. These advances in 2007 amounted to £44,600m – a rise of 93% since 1999. At the end of Q1 2008 there were 1,073,300 buy to let mortgages outstanding.
Table 5 provides recent UK quarterly data on buy to let mortgages. In Q1 2008 the number of gross advances declined 8% since Q1 2007. Q1 2008 also saw a higher level of remortgaging activity rather than purchases, which reverses the trend over the previous few quarters.

### Table 5: UK Buy to Let Data Q4-2006 to Q1 2008

<table>
<thead>
<tr>
<th>Date</th>
<th>Gross advances in period</th>
<th>Gross Advances in period £m</th>
<th>House purchase %</th>
<th>Remortgage %</th>
<th>Mortgages outstanding Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Q4</td>
<td>75,500</td>
<td>8,100</td>
<td>52.7</td>
<td>47.1</td>
</tr>
<tr>
<td></td>
<td>Q1</td>
<td>81,300</td>
<td>9,800</td>
<td>53.1</td>
<td>45.4</td>
</tr>
<tr>
<td></td>
<td>Q2</td>
<td>88,200</td>
<td>11,100</td>
<td>53.6</td>
<td>44.8</td>
</tr>
<tr>
<td></td>
<td>Q3</td>
<td>93,100</td>
<td>12,400</td>
<td>52.3</td>
<td>46.0</td>
</tr>
<tr>
<td></td>
<td>Q4</td>
<td>83,400</td>
<td>11,300</td>
<td>53.2</td>
<td>45.0</td>
</tr>
<tr>
<td>2008</td>
<td>Q1</td>
<td>74,800</td>
<td>9,800</td>
<td>44.9</td>
<td>52.5</td>
</tr>
</tbody>
</table>

Source: CML (2008c) Table MM6

Despite the fall in number of buy to let mortgages advanced there is evidence to suggest that there is still strong demand for rental property from potential buyers being unable to enter home ownership (RICS 2008), or from households selling a property and postponing buying another one.

There is also evidence to suggest that generally landlords can expect steady, or growing, rental incomes (Birmingham Midshires 2008). Data from Citylets on rental incomes in Glasgow, Edinburgh and Aberdeen for 1 and 2 bedroom properties is given in Table 5.

### Table 6: Average Rental Income

<table>
<thead>
<tr>
<th></th>
<th>1 bed</th>
<th></th>
<th>2 bed</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Growth Q1 07 to Q1 08</td>
<td></td>
<td>Growth Q1 07 to Q1 08</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>£526</td>
<td>5.8%</td>
<td>£676</td>
<td>6.3%</td>
</tr>
<tr>
<td>Glasgow</td>
<td>£454</td>
<td>4.6%</td>
<td>£559</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Aberdeen</td>
<td>£550</td>
<td>10.9%</td>
<td>£821</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Source: Citylets 2008

Table 6 indicates rental incomes have increased in the last year – apart from 2 bed properties in Glasgow where there has been a slight decrease.

Despite the demand for rental property, it is likely that potential buy to let investors will find it more difficult to access the market because of the restricted supply of mortgages. It is difficult to establish how current market conditions will affect the behaviour of existing buy to let investors. A number of factors will influence whether they decide to stay or leave the market including their motivation for investing in the first place. The drop in capital gains tax on second homes (from 24–40% to 18%) from April 2008 may also influence future investment decisions.

There has been some speculation in the media that the buy to let sector will be particularly affected by the credit crunch. As Figure 10 showed there was a peak in buy to let mortgage activity that coincided with peak house prices. Furthermore, a greater proportion of buy to let mortgages are paid on an interest only basis. These factors could combine to make buy to let investors more vulnerable to falls in house prices.
Figure 11 illustrates the proportion of all buy to let mortgages that were 3 months or more in arrears or that were in possession at the end of that period.

![Figure 11: Buy to Let Mortgage Arrears and Possessions](chart.png)

Source: CML on-line tables MM6 and AP5

Figure 11 illustrates that in Q1 2008 0.9% (9,659) of all buy to let mortgages were 3 months or more in arrears - a rise of 23% since the last quarter. In Q1 2008 0.15% (1,609) of all buy to let mortgaged properties were in possession – a rise of 25% since the last quarter. As these figures relate to the UK only it is difficult to make any further analysis of the specific situation in Scotland.

**REPAYMENT DIFFICULTIES**

One potential impact of a slowing down of house price inflation, or falling house prices, combined with increasing mortgage rates may be a rise in the number of households experiencing difficulties in repaying their mortgage. This could potentially be exacerbated by the high number of households with fixed-rate mortgage products coming to end who may face less favourable rates in response to lenders more restrictive terms and conditions. Table 7 below illustrate the potential impact of what has been referred to as the “repayment shock”.

<table>
<thead>
<tr>
<th>Table 7: Impact of Change in Mortgage Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Going from a 4.34% to a 7.07% mortgage deal:</td>
</tr>
<tr>
<td>A £100,000 mortgage costs £186.25 more a month</td>
</tr>
<tr>
<td>A £150,000 mortgage costs £279.38 more a month</td>
</tr>
<tr>
<td>A £250,000 mortgage costs £465.63 more a month</td>
</tr>
</tbody>
</table>

Source: Moneyfacts 2008

Some households will have experienced changed circumstances that will allow them to cope with higher mortgage repayments. The “repayment shock” will particularly impact on those
households whose income levels have not risen, those with high loan to value ratios, and those with little or no savings. Rising food and fuel prices may also reduce the level of disposable household income.

The CML have predicted, across the UK, a rise in the number of mortgage loans in arrears of more than three months from 129,800 at the end of 2007 to 170,000 at the end of this year – a rise of 31%. The CML also predict that the number of repossessions\(^2\) will rise from 27,100 in 2007 to 45,000 in 2008 - a rise by almost 66%. The forecast for 2008 represents a 0.38% repossession rate, which compares to a low of 0.02% in 2002/03 and a high of 0.69% in 1992 (CML 2008b). Again these are UK figures and there is a lack of robust Scottish data on repossessions.

There has been speculation in the media about how the current situation compares to the housing market “crash” of the 1990s. The Nationwide (2008c) believes that there a number of reasons why “today’s borrowers are better placed to weather the storm than in the 1990s”. The main reasons are:

- fewer homeowners bought at the top of the market in this cycle. This means a much smaller proportion of borrowers face the full effect of falls in prices than was the case in the 1990s
- borrowers now typically put down a larger deposit than households in the 1980s
- a much greater proportion of recent borrowers have opted to repay capital rather than just interest. Therefore, the majority of borrowers will have repaid some capital and improved their underlying equity position.

**Support for Borrowers**

The UK government has been in talks with mortgage lenders about measures to improve information and support for mortgage borrowers. CML members have committed to four significant specific measures, namely:

- To analyse their existing arrears management policies and implement any changes identified as a result of the industry guidance that the CML is preparing.
- To provide information for consumers on their own arrears management process to help borrowers understand what to expect and how they will be treated fairly.
- To support the principle of a pre-action protocol for mortgage cases for use before court proceedings, providing an additional assurance that only appropriate cases go to court.
- To inform borrowers in good time when they are coming out of initial deals onto higher rates with increased monthly repayments, and encourage them to make contact if a financial problem is likely to arise (CML 2008)

The Government will also be exploring the potential for reform to the Support for Mortgage Interest Scheme (which is UK wide). The scheme offers financial support to low income

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\(^2\) The arrears and possessions figures are estimates based on a survey of CML members, which are then grossed up to be representative of all the lending undertaken by CML members. They cover arrears and repossessions relating to first charge mortgages only, not other secured loans. They include voluntary repossessions/abandonments as well as those undertaken with a court order.
households who may face short term difficulties in repaying their mortgage, to help them avoid repossession (Department of Local Government and Communities 2008b).

On 9 May the UK government also announced a package of measures to support householders in England who may be facing difficulties with their mortgage (HM Treasury 2008). The £10m package of measures includes:

- Strengthening the capacity and expertise of the National Housing Advice Service to provide independent expert advice for people struggling to pay their mortgage or loan.

- New arrangements with the Ministry of Justice, to ensure households at risk of repossession have access to free legal advice and representation at county courts throughout England.

- More specialised training for Citizen Advice Bureau staff and local authorities, to provide tailored comprehensive financial advice for consumers.

In Scotland the Mortgage Rights (Scotland) Act 2001 (asp 11) helps households who might otherwise become homeless when their homes are repossessed. The Act enables a person whose lender is seeking possession through the courts to ask the sheriff to defer a decision to allow them to arrange secure alternative accommodation or, where possible, repay any arrears and get their mortgage back on track. There is also a Mortgage to Rent Scheme in Scotland which funds a social landlord to buy a person's house and let it to them as an affordable home if the lender is seeking possession through the courts and there are good reasons for keeping the family in the same home.

**IMPACT ON THE HOUSEBUILDING INDUSTRY**

In response to current market conditions a number of major UK housebuilders have reported declining reservations which will affect their profit levels in the short term. For example, company statements have reported:

- "Barratt: ‘Total house building revenues for the 19 week period to 11 May… [showed] a decrease of 7.6 per cent. Completions were down 5.5 per cent…’

- Bellway: ‘Since 1 February, the deterioration in the market has resulted in net reservations, taken in this shorter period, being down 31 per cent… we had anticipated a fall of around 5 to 10 per cent in the numbers of houses sold… it is now expected that the fall will be in the range of 10 to 15 per cent.’

- Berkeley: ‘Berkeley’s sales reservations in the last four months [to March 2008] are approximately 20 per cent below historic levels.’

- Bovis Homes: ‘Reservations achieved to date for 2008 [show] a decrease of 30 per cent [compared with the same period in 2007].’

- Persimmon: ‘Total sales revenue for 2008… [shows] a decrease of 24 per cent. Volumes are down less, by circa 18 per cent.’

- Taylor Wimpey: ‘The current book order is 26 per cent lower by value [than the equivalent period in 2007].’ (Inside Housing 2008)

The consequence of this has been falling share prices for the housebuilding sector as a whole. Furthermore, some housebuilders have been scaling back their operations, for example, Taylor
Wimpey is to close 13 offices across the UK, including two in Scotland. About 600 jobs will be lost of which around 90 will be in Scotland.

**SCOTTISH HOUSING POLICY**

In Scotland the Scottish Government have consulted on their future housing policy in the consultation document, *Firm Foundations: the Future of Housing in Scotland –a Discussion Document* (Scottish Government 2007b). It proposes a number of measures to increase in the supply of new house building to at least 35,000 per year by the middle of the next decade. This is viewed as “both achievable and necessary if we are to reverse declining affordability.” There are also proposals to expand the range of products allowing those on low incomes to access home ownership. The consultation document was issued in the autumn of 2007, at the start of the credit crunch. It is expected that the Scottish Government will announce fuller details of the direction of their housing policy in June.

**PROSPECTS FOR THE SCOTTISH HOUSING MARKET AND THE SCOTTISH ECONOMY**

**FUTURE HOUSE PRICE TRENDS**

There has been much speculation in the media about the future direction of house prices. There is a consensus amongst commentators that house price inflation will be much lower, or decline, over the coming months. However, there has been debate over the extent of the change in house prices and how changes in Scotland will differ to the rest of the UK.

Table 8 provides house price change predictions. HBOS and CML have already both revised their UK predictions downwards illustrating the difficulty of making predictions with any great accuracy.

<table>
<thead>
<tr>
<th></th>
<th>2008 predictions UK</th>
<th>2008 predictions Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halifax</td>
<td>-single digit decline</td>
<td>Low single digit increase%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>CML</td>
<td>-7%</td>
<td>n/a</td>
</tr>
<tr>
<td>Hometrack</td>
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</table>


Table 8 suggests that Scotland will be more resilient to falls than those in the rest of the UK. The main reason for these different predictions is the relative affordability of house prices in Scotland (Nationwide 2008c). The CML have commented that:

“Downward pressure is unlikely to abate until there is an increase in mortgage approvals for house purchase driven by strengthening demand. This is unlikely to emerge until the uncertainties around the credit crunch and the outlook for incomes and employment lift. This is not in prospect for this year. Our central forecast is for average UK house prices to be about 7% lower in the fourth
quarter of this year compared with the fourth quarter of 2007, but there is a downside risk that they will fall by more. (CML 2008b)

ECONOMIC FORECASTS

Four independent forecasters have published forecasts for the Scottish economy in recent months. These are summarised in Table 9 with forecasts for the UK by the same forecaster included for comparison where available.

Table 9: Forecasts for Scottish GDP Growth by Independent Forecasters

<table>
<thead>
<tr>
<th>Forecaster</th>
<th>Date of Forecast</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge Econometrics</td>
<td>March 2008</td>
<td>Scotland 2.0</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>UK 2.0</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Experian</td>
<td>April 2008</td>
<td>Scotland 1.7</td>
<td>1.6</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>UK 1.8</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Ernst &amp; Young Item Club</td>
<td>June 2008</td>
<td>Scotland 1.5</td>
<td>1.6</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>UK 1.8</td>
<td>1.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Fraser of Allender</td>
<td>June 2008</td>
<td>Scotland 1.9</td>
<td>1.7</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Scottish Government (2008d); Experian (2008); Ernst and Young (2008); Fraser of Allender (2008)

Notes: CE and Experian forecast GDP; ITEM Club and FAI forecast GVA

All four forecasts are more pessimistic than those produced during 2007 and the more recent the forecast the more pessimistic the outlook tends to be. However the cause of this downward revision in growth prospects appears to owe as much to higher food and energy costs and the threat this poses to inflation than to the direct effect of the credit crunch. None of the forecasts are predicting a general recession for the Scottish economy but both the Item Club and the Fraser of Allender Institute (FAI) acknowledge that the risks are greater on the downside than the upside.

The summary of the Experian forecast includes the view that:

- Growth will edge down over the next two years but, with a more significant slowdown elsewhere, Scotland will expand at a faster rate than the UK for the first time since 2001.
- There are potential bright points. Scotland has two of the UK’s faster-growing city economies in Glasgow and Edinburgh, but the challenge will be to broaden prosperity beyond this base into the hinterlands.
- The economy also appears to be less susceptible to interest rate movements than other parts of the UK, with consumers less indebted and housing markets less stretched. This provides some insurance against the sort of shocks that have triggered recessions in other parts of the UK over the last 25 years.

Key points from the Ernst & Young Item Club assessment are:

- [Scottish] GDP growth is now expected to be only 1.5% and the persistence of the credit crunch and the surge in energy and food prices mean that 2009 will be another sub-par year, with growth only edging up to 1.6%
- The biggest downgrades to growth are in the private service sectors. The weakness of sterling, both in recent months and through the forecast period, will help manufacturing ride out the downturn as the economy rebalances away from consumer spending...
• Growth will be fast enough to keep employment broadly stable over the next two years, though the unemployment rate will rise modestly from its current historical low, reflecting the continuing growth in the working age population and net in migration
• Within private services three sectors – Financial Services, Distribution and Hotels and Restaurants - will bear the brunt of employment declines with a net loss of 15,000 jobs over the 2007-09 period
• Most risks to the forecast are on the downside. These include a sharper retrenchment by the UK consumer; stalling growth in the key Eurozone market which offsets the benefits of lower sterling for manufacturing exporters and/or lack of capacity to exploit export opportunities; and a continuation of credit market problems that lead to a weaker than forecast performance by Financial Services. On the upside the solidity of the Scottish labour market and lower levels of stress in the housing market may buoy Scottish consumer spending and result in a less gloomy outcome than the central forecast.

The Ernst and Young report also makes reference to the fact that Scotland was much less affected than the rest of the UK by the downturn in the housing market in the early 1990s and that the North-East of Scotland is benefiting from high oil prices. However the financial service sector and the impact of high transport costs could be a drag on the Scottish economy.

The press release which accompanied the FAI forecast states:

• Since the last Economic Commentary, the world economy has been caught in a tightening vice of financial restriction, financial insolvency and illiquidity on the one hand and depressed real incomes with rising inflationary expectations on the other, due to the significant oil and commodity price rises. The twin events have effectively blown away the settled expectation of the last 15 years in the major OECD economies at least, of steady growth and low or no inflation.
• The spectre of stagflation now threatens the major economies. The risk of accelerating inflation combined with low, zero or even negative growth has risen considerably. A return to the instability of the 1970s and early 1980s now has a much higher probability.
• Yet there is still hope that the crises can be negotiated without economic catastrophe. World trade continues to be strong with growth of 6.6% forecast in 2008 and 6.7% in 2009. Overall, growth of real GDP in the OECD is projected to slacken but not dramatically, from 3.1% and 2.7% in 2006 and 2007 to 2% and 2.1% in 2008 and 2009 respectively. Conversely, the overall OECD inflation rate is forecast to rise from 2% to 3.1% in 2008 and 2.7% in 2009.
• The UK and Scottish economies cannot be immune from the greater prospect in the world economy of sustained higher inflation, slower growth and an eventual weakening of the labour market with declining job creation and rising unemployment. Yet the flexibility, especially in the labour market, and resilience displayed by the UK economy in the last 10 to 15 years may help in negotiating the current crisis.
• In light of all the evidence, the FAI expects the growth of demand to moderate in the Scottish economy in 2008 and 2009. The growth of consumer spending moderates but not as much as in the UK in view of the relative strength of both the housing and labour markets in Scotland. The growth of private sector investment demand also slows. Added to this is the planned slowing in the growth of public spending.
• To be set against this is a strengthening of export demand from the outside the UK, which reflects the benefits of the decline in the exchange value of sterling and continued growth in Scotland’s principal export markets.
• Against this background the forecasts suggest that growth in Scotland will slow to a trend this year of 1.9% and then slows further to 1.7% in 2009, picking up slightly to 1.8% in 2010 and returning to the 1.9% trend in 2011.
• Scottish growth outperforms predictions of UK growth of 1.8% this year, stays just above UK growth in 2009 and but in 2010 slips behind UK growth again as the UK rate rises towards its trend at 2.5%

• Throughout this period net jobs continue to be created in the Scottish economy, although at fairly low rates, largely driven by the service sector. Unemployment is maintained at and below present levels.

• The levels of uncertainty as to future outcomes are very high indeed given present conditions in the world economy. There is considerable downside risk that growth and inflation in both Scotland and the UK will be worse than forecast here.
SOURCES


providing research and information services to the Scottish Parliament 24


The Royal Institution of Chartered Surveyors. (2008) *Residential Lettings Survey Great Britain.* London: RICS. Available at:

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providing research and information services to the Scottish Parliament

25


Scottish Government (2008e) *Personal communication.* [Unpublished]


Background

1. Members will be aware of the Business in the Parliament Conference (BIPC) series organised jointly by the Economy, Energy and Tourism Committee (www.businessintheparliament.org.uk), on behalf of the Scottish Parliament, and the Scottish Government. The most recent conference took place in February 2008. This paper provides feedback based on responses from delegates (see Annex).

2. This paper also provides ideas for the next conference (2009) in terms of possible themes, proposed dates, outline programme etc. These ideas have been discussed both with officials in the Scottish Government and representatives of the major business organisations and the STUC. Positive feedback was received during all of these discussions and the business organisations and STUC indicated that they were happy for the Committee and the Scottish Government to proceed on this basis.

Proposals for 2009

Format

3. The intention for a 2009 conference would be to follow the format used for this year although not with 4 guest speakers (possibly settling on 3 business speakers) in addition to a Scottish Government minister and the Convener of the Committee. Furthermore, the intention would be to include a guest speaker from a growing business (not necessarily an SME) in addition to speakers from a larger firm.

4. The six workshops/breakout sessions would be retained and the option of repeating some or all of these after the close of the conference would be looked at in order to enable delegates to attend more than one session. The model of asking a business person to facilitate these sessions in addition to having a minister/committee member as chair would be retained although we would assess how to better involve the chairs of the business organisations in the event.

5. The reception and subsequent seated dinner would be retained for a further year as this was felt to have worked well. The attempt to ensure that at least one minister and/or MSP were on each table was particularly welcomed and would be retained.
Proposed dates

6. Possible dates for BIPC 2009 would be in May/June 2009, though exact dates would depend on confirming that these did not clash with any major events being organised by the business organisations and also the timing of any party conferences. The Thursday evening/Friday day format would be retained. Such dates (May/June) would avoid clashes with the Scottish Governments national economic forum.

Themes

7. It is suggested that the theme of BIPC 2009 would need to change from a generic “business growth” theme as this had been used for the last two conferences. The favoured themes for a 2009 event were:
   - The importance of innovation to growing the economy;
   - The importance of skills & training.

8. It was recognised that both of these themes were sufficiently broad to allow for sub-themes (i.e. the focus for the breakout groups) such as innovation in the workplace, public policy framework, how to increase R&D spend in the business place etc.

9. It was suggested, however, not to run the breakout sessions on a sectoral basis (i.e. based on the six priority industries) as this was the focus for the last conference.

Other

10. It is suggested that officials liaise more closely to see whether future conferences could be a means of allowing Ministers to make relevant major policy announcements as this had not tended to happen in previous conferences. This may have arisen due to a mismatch between the timing of the event and Scottish Government announcement cycles. It was felt this would lend further weight to the importance of the BIPC series.

Recommendation

11. The Committee is invited to—
   - Consider the feedback from the 2008 conference
   - Discuss the proposals for a 2009 conference and task the Convener and the clerk to work on this basis along with the Scottish Government.

Stephen Imrie
Clerk to the Committee
June 2008
FEEDBACK FROM DELEGATES ON THE 2008 BUSINESS IN THE PARLIAMENT CONFERENCE

Number of survey returns = 20

1. WHAT IS YOUR OVERALL IMPRESSION OF THE CONFERENCE?

![Bar chart showing the distribution of responses for the overall impression of the conference, with percentages for Very Poor, Poor, Fair, Good, and Excellent.]

2. PLEASE RATE THE EVENT MANAGEMENT

![Bar chart showing the distribution of responses for the event management, with percentages for Very Poor, Poor, Fair, Good, and Excellent.]

3. **PLEASE RATE THE INFORMATION / ADVICE PROVIDED IN ADVANCE OF THE EVENT**

![Bar Chart for Information/Advice]

4. **PLEASE RATE THE VENUE AND FACILITIES**

![Bar Chart for Venue and Facilities]
5. IF YOU ATTENDED, PLEASE RATE CONFERENCE DINNER ON 21ST FEBRUARY

8. PLEASE GIVE YOUR ASSESSMENT OF THE DISCUSSION SESSION

9. I HAD A GOOD OPPORTUNITY TO CONTRIBUTE
Comments
- There was good opportunity in the break out session to contribute.
- Food manufacturing and tourism are too important to be linked together in a session like this. It is true that there are opportunities and synergies that can be explored but not with so many people in such a short time.

10. I CONSIDER THAT THIS EVENT WAS USEFUL TO ME AND MY BUSINESS

![Bar Chart]

Comments
- There seemed to be some confusion about what defined "The Creative Industries". Some of the attendees, including myself, expected it was what we consider to be creative industries (marketing, design, AV, PR, corporate communications) but it appeared to be more slanted to software/electronics.
- The usefulness will come from the follow-up and actions as a result of attending the conference.
- The poor turn out for the discussion session 5 (creative industries) hampered the outcome.
11. I THINK THERE SHOULD BE A SIMILAR EVENT IN THE FUTURE

Comments
- Perhaps it should be split between private and public sector as the needs are very different.
- This was a very useful event in many ways in creating contacts and exchange of information and building confidence in the Parliament.

12. IF THERE WAS A FURTHER CONFERENCE, WHAT SHOULD THE MAIN THEME(S) BE?

Comments
- Promoting business growth.
- Energy - oil and gas, renewables, biomass, nuclear. We have critical decisions to make about energy. Where is our energy to come from? Do we invest in nuclear? How do we use our land resources biomass v food?
- Transport - IoD Scotland members rate this as one of the most important issues. We need to improve our roads, improve rail links to Aberdeen, and stimulate more direct international flights to and from our energy city (Aberdeen). (I found it ironic that - to get to the BIPC - the rail timetable advised I needed to depart Aberdeen at 22.30 the previous day!!! Our colleagues in any other European country would find that unbelievable.)
- How to ensure that Scottish education (schools and further education) produces the right material for our businesses of the future - or even now.
- Role of government in enabling business to flourish in Scotland.
- Visit Scotland and its inefficiency. It won't listen to the "common man's" view, even though we're the ones at the point where visitors tell us what's not done to make things easier for them to find us, for instance. Also, they aren't following up on businesses that have pulled out, but are still advertising their Grading Plaques outside their businesses.
- How business and the Parliament can collaborate together to create a wealthier, stronger and fairer Scotland.
- Limiting the size of the Scottish public sector.
- Food manufacture opportunities for growth.
• Update on climate change issues.
• Tourism opportunities for growth.
• Public procurement.
• Skills development
• Stick to "achieving sustainable growth" as the overall theme but don't focus so strongly on only the 6 "priority industries" as this excludes a huge swath of Scotland's present economic value and its future potential value. Large established industries with less aggressive growth potential will still be massive contributors to Scotland's economic future.
• Focus on innovation as a theme

13 WAS THERE ANYTHING YOU WANTED TO HEAR ABOUT AT THE CONFERENCE WHICH WE DID NOT COVER?

Comments
• The oil and gas industry. This has to be one of the most important industries for Scotland. It provides 75% (and rising) of UK prime energy. It supports 500,000 quality UK jobs. It contributes 35 billion to our UK balance of trade. Yet it was hardly mentioned at the conference (Bewildered at the lack of reference to the industry, I did put my hand up towards the end, but we ran out of time before I was called).

14 ANY FURTHER COMMENTS YOU WOULD LIKE TO MAKE?

Comments
• I felt that the politicians who spoke in the plenary session 'went on' a bit too long; the contributions from the business people were more relevant and more interesting.
• This was my first conference. I found it really stimulating and interesting and would be keen to have an opportunity to contribute to follow ups on key issues like the creative industry (marketing, PR, design, etc), energy and transport.
• On arrival for the dinner, a host should be there to meet and greet or indeed MSPs should be responsible for meeting and greeting. Very intimidating to walk into a room where you know no one and nobody is there to welcome you. Very bad manners apart from business common sense.
Background

1. During today’s Committee meeting, members will discuss the following supplementary evidence received from Scottish Enterprise in relation to reform of the enterprise networks (see Annex).

Recommendation

2. Members are asked to agree what, if any, further information is required or what further action should be taken. Members may wish to take into account that the next round of scrutiny of the Scottish Government’s budget will commence in the autumn.

Stephen Imrie
Clerk to the Committee
June 2008
19 June 2008

Mr Tavish Scott
Convener
Economy, Enterprise and Tourism Committee
The Scottish Parliament
Edinburgh
EH99 1SP

Dear Tavish

Economy, Energy and Tourism Committee
Enterprise Network Reform – 21 May 2008

At the recent evidence session I agreed to provide you and the Committee with supplementary evidence from Scottish Enterprise (SE) in relation to the following: SE’s delegated authority schedule, numbers of staff moving from Atlantic Quay, Glasgow and the impact of changes in senior staff following the voluntary severance programme.

SE’s Schedule of Delegated Authority

I attach the outline of the new scheme of delegation authority for SE. This shows that there are three stages

1. **Approval**: in principle decision when a notional allocation of resources is awarded to a project to allow preparatory work to commence;

2. **Committed**: – an actual commitment following approval which occurs when a budget is identified and funds are allocated;

3. **Payment**: an agreement to pay when there is evidence that the work has been completed

The Committee was interested to know more about the ability for approval decisions to be made locally and by account managers. I would therefore draw your attention to the ability of Regional Operations Directors to commit and authorise payment up to £1m. In the case of Account Managers this is £15,000.

SE’s scheme of delegated authority is accompanied by guidance that;

- reflects the new single organisation model
- is simple to understand and operate;
- has clear lines of responsibility and accountability
- is aligned to internal business planning and project appraisal processes
- provides tight financial control

**Number of staff moving out of Atlantic Quay**

As part of the restructuring and re-focus of SE operations we have considered the location of staff. We are determined that as a new organisation our staff are located as close to the customer as possible.
The Scottish Government have also announced that our current premises in Atlantic Quay in Glasgow should serve as corporate HQ for SE, the new Skills Development Scotland, Scottish Development International as well as the Scottish Government Directorates currently housed in Meridian Court and Europa House in Glasgow. This will help achieve closer working relationships across government agencies.

When complete, c120 SE staff will remain in Atlantic Quay, compared to c600 at November 2007.

We are continuing to develop the redeployment plan. This work will include consultation with staff and unions. We aim in this process to minimise the number of home relocations by endeavouring wherever possible to allocate staff to offices within reasonable commuting distance of their present home. Our plans will also be developed to make best utilisation of existing leasehold office properties and to co-locate staff with other public sector organisations with activities complimentary to our own. This work will be largely complete over the course of this financial year and I will provide a detailed update to you at the earliest opportunity.

**Changes in Senior Management**

The Committee were also interested in any issues over loss of expertise as a result of staff leaving through the selected voluntary severance process. I am confident that we have retained a strong cohort of staff with the experience and expertise to carry forward the important work of a refreshed and refocused SE.

We are moving to a new phase in our development and welcome the opportunity to bring in new blood and create new opportunities for the talented and experienced staff that remain.

Following the voluntary redundancy programme we are satisfied that we have people with the skills and knowledge to deliver the business plan. We have increased expertise at a regional level by creating more specialist teams which will operate across geographic boundaries with a strong customer focus.

Finally, as Scotland’s enterprise, innovation and investment agency can I assure you that we are keen to support the work of the Committee. I would be happy to meet with you again or provide further information if required, at your convenience.

Yours sincerely

Jack Perry

Enc:
<table>
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<tr>
<th>Position</th>
<th>Approvals</th>
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