ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

18th Meeting, 2008 (Session 3)

Wednesday 24 September 2008

The Committee will meet at 9.30 am in Committee Room 1.

1. **Decision on taking business in private:** The Committee will decide whether to take item 4 in private.

2. **The impact of the ‘credit crunch’ on the Scottish economy:** The Committee will take evidence, in a round-table discussion, from—
   
   Owen Kelly, Chief Executive, Scottish Financial Enterprise;
   
   Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress;
   
   Eric Leenders, Executive Director, British Bankers’ Association;
   
   John Gill, Managing Director, Customer Service, UK Financial Services, Standard Life;
   
   Graeme Dalziel, Chief Executive, Dunfermline Building Society;
   
   Professor Prem Sikka, Professor of Accounting, University of Essex;

   and then from—
   
   Allan Lundmark, Director of Planning and Communications, Homes for Scotland;
   
   Michael Levack, Chief Executive, Scottish Building Federation;
   
   David Melhuish, Director, Scottish Property Federation;
   
   Roderick Pettigrew, Head of Commercial and Legal at Heating and Ventilating Contractors’ Association (HVCA) and Vice Convener, Scottish Parliament Cross-Party Group on Construction;
Alan Watt, Chief Executive, Civil Engineering Contractors Association (Scotland) (CECA);

Harry Frew, Scottish Secretary, Union of Construction, Allied Trades and Technicians (UCATT);

Ron Smith, Chief Executive, Edinburgh Solicitor Property Centre;

Mark Hordern, Head of Marketing, Glasgow Solicitor Property Centre;

David Wright, Head of External Affairs, The Electrical Contractors' Association of Scotland (SELECT).

3. **Determining and delivering Scotland's energy future**: The Committee will consider its approach to its inquiry.

4. **Budget process 2009-10 (Stage 1)**: The Committee will consider a briefing from its adviser on the Scottish Government's budget proposals 2009-10.

5. **Energy Technologies Institute Inquiry (in private)**: The Committee will consider follow-up to the Committee's inquiry report and the response of the Scottish Government.

Stephen Imrie
Clerk to the Economy, Energy and Tourism Committee
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Edinburgh
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The papers for this meeting are as follows—

**Agenda item 2**

Note by the Clerk

Note by SPICe

Note by the Clerk

*SPICe briefing: Impact of the Credit Crunch on the Scottish Economy and the Scottish Housing Market*

*SPICe briefing: Economic Indicators*

**Agenda item 3**

Note by the Clerk

**Agenda item 4**

Note by the Clerk

*SPICe briefing: Draft Budget 2009-10*

**Agenda item 5**

Note by the Clerk
Economy, Energy and Tourism Committee

18th Meeting, 2008 (Session 3), Wednesday, 24 September 2008

THE ‘CREDIT CRUNCH’ AND THE IMPACT ON THE SCOTTISH ECONOMY - NOTE BY THE CLERK

Introduction

1. Members will be aware that the Committee will be taking evidence from a range of organisations during today’s meeting on the issue of the ‘credit crunch’ and the impact on the Scottish economy, particularly on banking and financial services, and on housing and the construction sector. As such, two roundtables have been organised, comprising of representatives of various organisations and commercial companies relevant to these sectors of the economy.

2. Members will also be aware of the forthcoming informal meetings that have been arranged with other commercial companies on similar subjects. These will help give members of the Committee a further insight into the views of key organisations in these sectors.

3. To aid members with their consideration of such matters and with their questioning, SPICe has updated its research paper on these subjects, which is being circulated separately for today’s meeting.

Recommendation

4. Members are asked, following the evidence, to discuss what, if any follow-up action they would wish the Committee to take forward. This may include:

   - Any follow-up with the Scottish Government (e.g. feedback on meetings held with Banks and other financial institutions etc.);
   - Further research and analysis by SPICe or by external researchers;
   - Any further deliberations within the Committee (e.g. further hearings, inquiries, engagement the Financial Services Advisory Board etc).

Stephen Imrie
Clerk to the Committee
September 2008
Economy, Energy and Tourism Committee

The Credit Crunch
An Update of Economic and Housing Market Data

The credit crunch and its consequences continue to dominate the headlines with continuing uncertainty about the value of property backed assets and hence uncertainty about the viability of financial institutions holding these assets.

This paper does not attempt to second guess financial markets but provides an update of some of the tables and charts which appeared in SPICe briefing SB 08/36 “Impact of the Credit Crunch on the Scottish Economy and the Scottish Housing Market” published in June 2008. Further information on the Scottish economy is available in SPICe briefing SB 08/39 “Economic Indicators” published on 21 August 2008.

The paper summarises economic data published in the last month and recent data related to the housing market.

RECENT ECONOMIC DATA

Economic Forecasts for the United Kingdom
In recent days the Organisation for Economic Co-operation and Development (OECD), the European Commission and the Confederation of British Industry (CBI) have each revised down their forecasts for the UK economy. All three are now predicting two quarters of negative growth (the widely accepted definition of a recession) for the second half of 2008 although overall growth for the year is still forecast to be positive (OECD, 2008, European Commission, 2008, CBI, 2008).

Prices
UK manufacturing industries input (fuel and raw materials) prices rose in the year to August by 26%. However between July and August there was a seasonally adjusted fall of 2.0% largely because of the decline in oil prices. Manufacturing output prices rose by 9.7% in the year to August but declined by 0.2% (seasonally adjusted) on the previous month (National Statistics, 2008a).

The Consumer Price Index (CPI) rose to 4.7% in August, and increase of the previous figure of 4.4%, as rises in gas and electricity prices took effect. This prompted the Governor of the Bank of England to write to the Chancellor to explain the rise in prices. The Retail Prices Index (RPI) fell to 4.8% in the
year to August, down from 5.0% in July (National Statistics, 2008b) as last year’s increases in mortgage rates dropped out of the figures.

**Purchasing Managers Index**
The latest PMI Scotland Report shows the output index continuing to decline with a score of 41.9 in August compared with an average of 42.9 in the previous three months (Royal Bank of Scotland, 2008a). The RBS Chief Economist (Royal Bank of Scotland, 2008b) reported that the UK Index rose in August to 49.0 from 46.3 in July. A reading below 50 signifies contracting activity but the fact that the index moved closer to growth territory was deemed by the RBS Chief Economist to be encouraging.

**Retail Sales**
Scottish retail sales on a like-for-like basis increased by just 0.7% in August compared with a year earlier implying a decline in real terms. For the UK there was a decline of 1.0%. (Scottish Retail Consortium, 2008).

**Scottish Leading Economic Indicators**
The Bank of Scotland Index of Leading Economic Indicators is a composite of a number of measures which tend to vary in advance of changes in general economic activity. The measures include business optimism and consumer confidence, housing starts and new car sales. Historically the index has been closely correlated with economic growth in the following 12 months and is used as a guide to how the economy is likely to perform in the short to medium term.

The latest index (Bank of Scotland, 2008) suggests that the moderation in Scottish economic growth will continue through the remainder of 2008 and into the first quarter of 2009.

**Labour Market**
The latest labour market statistics (National Statistics, 2008c) show a fall in the employment rate and in the number of people in employment while the claimant count and the unemployment rate have both risen.

**UK**
UK claimant count (seasonally adjusted) increased by 32,500 between July and August to reach 904,900, a rate of 2.4%. Unemployment in the May to July quarter increased by 81,000 to reach 1,724,000, a rate of 5.5%. The number of people in unemployment in June was 29,538 million, a reduction in the month of 16,000. The average number of vacancies in the three months to August fell by 56,900 to 613,200.

**Scotland**
The Scottish claimant count (seasonally adjusted) increased in August by 2,600 to reach 78,300, a rate of 2.4% and the same rate as the UK. Unemployment in the May to July quarter fell by 4,000 to 112,000 a rate of 4.2%. The number of people in employment in June was 2.54 million, a reduction of 7,000 on the previous month.
Central Bank Interest Rates

Faced with the twin threats of inflation and recession, the Bank of England and the US Federal Reserve left rates unchanged over the summer at 5.0% and 2.0% respectively. The European Central Bank increased interest rates by 25 basis points in July to 4.25% (Figure 1) despite the eurozone economy experiencing negative overall growth in the second quarter with little growth expected in the second half of the year.

Figure 1: Central Bank Interest Rates 2000-08


HOUSING MARKETS

House Prices

US

The fall in US house prices is generally accepted as having been the trigger for the credit crunch making banks reluctant to lend against US property or trade in mortgage-backed securities.

US house prices as measured by the Case-Shiller Index continue to decline (Figure 2) but the rate of reduction has slowed from over 2% per month between November 2007 and March 2008 to a decline of just 0.5% between May and June 2008. Some cities have shown modest price increases. The cumulative money decline from the peak in July 2006 is now 18.8% and the real terms decline from the peak in May 2006 is now 22.3%. This leaves prices in real terms about a third above the level prevailing at the start of the decade.

Figure 2: S&P/Case-Shiller House Price Index 2000-08
UK

UK house prices continue to decline with the Nationwide Building Society reporting a month on month reduction of 1.9% (seasonally adjusted) in August and the Halifax reporting a reduction of 1.8%. Both indices show prices around 12% below the peak reached last summer/early autumn (Figure 3).

Figure 3: UK House Price Indices 2000-08 Current Prices

The decline in real terms is greater. Using the Treasury’s forecast of a 3% GDP deflator for the current financial year, then both indices are showing declines in real terms of around 15% from last year’s highest values (Figure 4). Nonetheless the average price of a house in the UK in real terms is still above trend price levels as judged by the Nationwide (Figure 5).

Figure 4: UK House Price Indices 2000-08 Real Terms
Scotland
The Department for Communities and Local Government (DCLG) data shows Scottish house prices continuing to rise in June and an increase over the year of 4.5% (Table 1). Contrary to most other surveys DCLG data also shows an increase in UK prices of 0.4% in the year to June.

The Nationwide and the Halifax both show Scottish prices declining in the second quarter with the Halifax showing a year on year decline of 2.1%.

Lloyds TSB show prices rising in July and a year on year increase of nearly 10%.
Table 1: Scottish and UK House Price Comparisons

<table>
<thead>
<tr>
<th>Survey source</th>
<th>Period</th>
<th>Scotland</th>
<th>UK</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Av. House Price</td>
<td>Change in period</td>
</tr>
<tr>
<td></td>
<td></td>
<td>£172,185</td>
<td>+1.6%</td>
</tr>
<tr>
<td>Dept for Communities &amp; Local Gov't</td>
<td>June 2008</td>
<td>£167,577</td>
<td>+1.2%</td>
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<tr>
<td></td>
<td></td>
<td>£215,029</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>2008 Q2</td>
<td>£149,541</td>
<td>-1.8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>£174,514</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Halifax/Bank of Scotland</td>
<td>2008 Q2</td>
<td>£137,920</td>
<td>-4.5%</td>
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<tr>
<td></td>
<td></td>
<td>£185,625</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Lloyds TSB - Scottish House Price Monitor</td>
<td>July 2008</td>
<td>£172,185</td>
<td>+1.6%</td>
</tr>
<tr>
<td>Registers of Scotland</td>
<td>2008 Q2</td>
<td>£155,691</td>
<td>+3.6%</td>
</tr>
<tr>
<td>Land Registry (England &amp; Wales)</td>
<td>July 2008</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>£178,364</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

Sources: Nationwide (2008); Halifax Bank of Scotland (2008); Lloyds TSB (2008); Registers of Scotland (2008); Department of Communities & Local Government (2008).

Note: Survey data show considerable variation due to differences in timing and survey methods.

Registers of Scotland has the most comprehensive data on Scottish house prices but the data tends to be lagged compared with that compiled by lenders and is not mix adjusted or seasonally adjusted. These show Scottish prices continuing to rise in 2008 Quarter 2 compared with the previous quarter. Land Registry figures for England and Wales show prices dropping 0.6% in July and 2.0% down on a year earlier.

Meaningful and up-to-date comparisons of the Scottish housing market with the UK are complicated by the fact that some surveys only report on Scottish prices (Lloyds TSB, Registers of Scotland) and some only report Scottish prices quarterly (Nationwide, HBOS, Registers of Scotland). Only the DCLG provides UK and Scottish prices on a monthly basis but their latest data is for June.

These data show that Scottish house prices, having not risen as high as in other parts of the UK, have not, so far, experienced as steep a decline. This is similar to the experience of the Scottish housing market in the early 1990s.

**Mortgage Lending: Scotland and UK**

The availability of mortgages has a major influence on house prices but the take up of home loans is also affected by price expectations. Having peaked at over 300,000 new loans per quarter in the latter half of 2006 the number of new home loans in the UK has since declined sharply (Figure 6).
Figure 6: Lending for House Purchase Scotland-UK Comparison

![Graph showing lending comparison between Scotland and UK](image)

Source: Council of Mortgage Lenders (2008)

This trend has continued with UK home loans in 2008 Q2 down 45% on 2007 Q2. The decline in the number of loans has been less pronounced in Scotland but the reduction was still 35% in 2008 Q2 compared with 2007 Q2.

**House Sales: Scotland and UK**

The combination of tighter lending conditions and expectations of further price reductions has led to a drop in the number of housing transactions across the UK. The Royal Institution of Chartered Surveyors is reporting the lowest rate of house sales in 30 years, although this is based on sales per surveyor rather than absolute number of transactions.

The most reliable data for the number of transactions is compiled by the Registers of Scotland and the Land Registry (England and Wales) although since it refers to completed sales the data is a lagged indicator of market activity.

Land Registry data shows sales in England and Wales declining steeply in the early part of this year (Figure 7). In the first five months of 2008 completed sales were 40% below the same period in 2007. Registers of Scotland data for May and June shows a year on year reduction of around 27%.

It is noteworthy that recorded sales in Scotland in the first five months of 2008 were running at 16% of the England and Wales figure. For comparison the Scottish population is 9.5% of the E&W total. This means that the Scottish housing market has been relatively much more active than in England and Wales despite the fact that the reduction in the availability of credit has been a UK-wide phenomenon.
**Figure 7: Number of House Sales**

Sources: Registers of Scotland; Land Registry

**Jim Dewar**  
SPICe Research  
September 2008

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Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament Committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.
SOURCES


Economy, Energy and Tourism Committee

18th Meeting, 2008 (Session 3), Wednesday, 24 September 2008

DETERMINING AND DELIVERING SCOTLAND’S ENERGY FUTURE – DEVELOPMENT OF A PROGRAMME FOR THE INQUIRY

Background

1. The Committee agreed the remit for this inquiry at an initial meeting on 24 October 2007 and further developed it at its meeting on 7 May 2008.

2. The Committee has received over 70 submissions in response to its call for written evidence. These have been posted on the Committee’s web pages and distributed to members in hard copy.

3. The Committee’s work programme until the Christmas recess already includes a number of individual evidence sessions and the scrutiny of the Scottish Government’s budget. This paper proposes that the remaining slots in the work programme before the Christmas recess should be used to accommodate an initial series of visits and roundtables. These visits and roundtables would represent a first stage of the inquiry; one which concentrates on setting the scene and context for the inquiry. The second stage, which would take an in-depth look at the key themes of the inquiry, would be developed towards the end of the year and initiated following the Christmas recess in accordance with the Committee’s work programme at that point.

4. The purpose of the Committee’s discussion during today’s meeting is—
   - to consider the proposed two-staged approach to the Committee inquiry;
   - to agree locations for visits within Scotland;
   - to agree whether Members wish to undertake any foreign travel in relation to this inquiry;
   - to consider the proposal for evidence sessions and roundtables for the first stage of the inquiry; and
   - to agree to identify themes and witnesses for the second stage of the inquiry following the conclusion of the roundtables.
First Stage of the Inquiry: Proposed Programme until the Christmas recess

Visits

5. A number of organisations/bodies have approached the Committee with offers to host informal briefings and visits to energy installations and other sites relevant to the inquiry before Christmas. A series of visits would provide the Committee with the opportunity to see energy installations and engage in informal discussions with experts in the energy field. Members are invited to identify which of these they would like to prioritise in order that the Clerks can make the necessary arrangements. It might be possible to link together two different visits in the same geographical location. The invitations include the following:

- Scottish Power has suggested the possibility of visiting a coal-fired power station, a wind farm, the Scottish Power control centre at Kirkintilloch and/or a discussion with Scottish Power directors and a briefing on Scottish Power’s work in relation to Carbon Capture and Storage.

- Scottish and Southern Energy have proposed visits to the Glendoe hydro-electric development, the Braes of Doune windfarm, energy efficiency projects in Alyth and a briefing on grid issues.

- Highlands and Islands Enterprise has offered to host a visit to the European Marine Energy Centre (EMEC) in Orkney. This could be combined with visits to small-scale and community renewables projects, technology companies and a housing association development.

- Oil and Gas UK has proposed an offshore visit for members of the Committee. This would involve a whole day, with some health and safety training beforehand. Ideally such a visit should take place earlier in the autumn to avoid the more extreme weather conditions of the winter.

- The Royal Bank of Scotland (RBS) PLC is one of the key project finance banks in the European renewables sector. RBS has submitted evidence to the Committee’s inquiry and has proposed a seminar with the Committee to discuss its approach to promoting renewables and its renewable investment portfolio.

- The British Energy Group has invited the Committee to visit Torness or Hunterston, meet some of the staff involved in nuclear generation and learn about the contribution the stations currently make to the energy mix and what new nuclear designs could contribute in the future.

- The Chemicals Industry Association has invited the Committee on a fact-finding visit to Grangemouth. This could include visiting the
Grangemouth refinery, companies that manufacture fuels or generate power and steam, and a visit to a combined heat and power plant.

- A visit to Cameronbridge distillery and Methill Energy Park. Diageo has offered to host a visit to the Cameronbridge distillery in Fife, where it plans to develop a £65 million bioenergy facility which will integrate sustainable technologies on a commercial scale and reduce annual CO2 emissions by approximately 56,000 tonnes. The Committee could also consider visiting the Methill Energy Park and the Hydrogen Office (which is developing the Hydrogen Office Demonstration Centre) and Plurion, which are both located there.

- In addition, the Committee might wish to consider visiting some examples of energy efficient buildings. Examples in the Edinburgh area include the City of Edinburgh Council headquarters and Queen Margaret University. Consideration could also be given to visiting the Findhorn community or low-carbon projects such as Acharacle primary school.

Seminars

6. At its meeting of 10 September 2008, the Committee was notified of the proposal to hold a joint seminar with the Transport, Infrastructure and Climate Change Committee. Subject to the agreement of the Conveners Group, this seminar will take place on Tuesday 30 September from 14:00-16:30. This seminar will involve the use of scenario planning for the energy sector through the GRIP tool. GRIP allows the user to investigate the ramifications of different energy mixes in terms of emission levels, prices, sector-by-sector impacts on the economy etc.

Rountables and evidence sessions

7. It is likely that National Planning Framework 2 (NPF2) will be introduced to Parliament in December. The Committee has already agreed that it wishes to take evidence on NPF2; both on the implications of NPF2 for economic growth and on any specific national developments which fall within the Committee’s remit. In the latter context, it is likely that there will be an opportunity to consider the grid structure and specifically the Beauly-Denny line. Depending on the timing of the introduction of NPF2, this may take place shortly before or after the Christmas recess.

8. It is suggested that the Committee invite the Minister for Enterprise, Energy and Tourism to give evidence to the Committee on the Scottish Government’s energy policy, as well as the three areas that will form the themes for the roundtables. This will allow the Committee to have an understanding of the Scottish Government’s policies in all of these areas before discussing these areas with other stakeholders.

9. It is proposed that three roundtables be timetabled into the Committee’s work programme before the Christmas recess in order to set the context for
the inquiry and give Members the opportunity to further develop their understanding of a number of key areas. Members are invited to comment on this proposal and to suggest additional or alternative witnesses. The roundtables would focus on the following three key areas:

- **The Political Landscape.** This roundtable would focus on areas of policy and development which are reserved and devolved, the corporate versus Government context, regulation, the national grid and local and community initiatives. If the Committee agrees to a visit to Brussels, this will allow consideration of the European policy context.

  - The Scottish Government
  - Ofgem
  - Department for Business, Enterprise and Regulatory Reform
  - Local authorities active in promoting energy efficiency
  - The Crown Estate
  - The National Grid
  - Highlands and Islands Enterprise and Scottish Enterprise
  - Community Energy Scotland
  - A Trade Union

- **Scenario planning.** This roundtable would focus on the need to identify current and future demand levels accurately by means of comparable statistics. It is proposed to invite witnesses from the following bodies/organisations:

  - Scottish Government
  - Royal Society of Edinburgh
  - UK Energy Research Centre
  - UK Business Council for Sustainable Energy
  - Shell scenarios
  - Energy Technologies Institute
  - WWF Global Energy Taskforce
  - Department for Business, Enterprise and Regulatory Reform

- **Imperatives.** This roundtable would focus on the imperatives to reduce energy demand, including climate change and environmental protection, commitments to reduce carbon emissions, security of supply and cost to consumers (especially fuel poverty). It is proposed to invite witnesses from the following bodies/organisations:

  - Scottish and Southern Energy
  - Scottish Power
  - Stop Climate Chaos
  - Oil and Gas UK
  - Scottish Renewables
  - First Group
  - Energy Savings Trust
  - The Carbon Trust
Second Stage of the Inquiry: Proposed Programme after Christmas

Possible foreign fact-finding visits

10. The Committee is invited to consider potential locations for foreign visits after the Christmas recess in order that the necessary approvals and arrangements can be put in place. Such fact-finding visits would allow Members to ascertain how other countries have tackle issues surrounding the supply and consumption of energy and to view examples of best practice. Members are invited to contribute their own suggestions, but potential locations could include:

- **Scandinavia** – This trip could focus on the examination of building standards and energy efficiency measures, particularly in the context of similar climatic conditions to Scotland. Examples of schemes to limit energy consumption in relation to transport could also be of interest.

- **Germany** – The Committee might be interested in visiting the first operational carbon capture scheme which is located in the German state of Brandenburg. Germany universities and industry are also at the forefront of many technological developments in the renewables field and many German states have successfully promoted energy efficiency policies at the state-level.

- **Brussels** – a trip to Brussels would afford the Committee the opportunity of having meetings with European Commission officials on energy policy and on the environmental directives, as well as with colleagues on the European Parliament Committee on Industry, Research and Energy.

Development of Second Stage of the Energy Inquiry

11. It is proposed that the second stage of the inquiry should be developed following the conclusion of the three roundtables. Members will be invited to propose areas of inquiry and witnesses for a more detailed consideration of the key themes of the inquiry after the Christmas recess.

Stephen Imrie
Clerk to the Committee
September 2008