The Committee will meet at 9.30 am in Committee Room 4.

1. **Declaration of interests:** Ms Wendy Alexander MSP will be invited to declare any relevant interests.

2. **Budget process 2009-10 (Stage 2):** The Committee will take evidence on the Scottish Government's Draft Budget 2009-10 from—

   Jo Armstrong, Director, Armstrong and Armstrong Limited;

   John McLaren, Honorary Research Fellow, Centre for Public Policy for Regions;

   Kenneth Low, Research Fellow, The Fraser of Allander Institute, University of Strathclyde;

   Ben Thomson, Chairman, Reform Scotland.

3. **The impact of the credit crunch on the Scottish economy:** The Committee will discuss an options paper on how members may wish to take forward deliberations on this issue.

4. **Invitation to the Council of Economic Advisers:** The Committee will discuss its invitation to the chairman of the Council of Economic Advisers to give evidence to the Committee.

5. **Seminar with the Scottish Trades Union Congress:** The Committee will consider an outline programme for its annual seminar with the Scottish Trades Union Congress.
The papers for this meeting are as follows—

**Agenda item 2**

Note from the clerk EET/S3/08/19/1  
Note from SPICe EET/S3/08/19/2  
Paper from the Budget Adviser EET/S3/08/19/3 (P)

**Agenda item 3**

Note from the clerk EET/S3/08/19/4

**Agenda item 4**

Note from the clerk EET/S3/08/19/5

**Agenda item 5**

Note from the clerk EET/S3/08/19/6
Economy, Energy and Tourism Committee
19th Meeting, 2008 (Session 3), Wednesday, 8 October 2008

CONSIDERATION OF THE SCOTTISH GOVERNMENT’S DRAFT BUDGET PROPOSALS FOR 2009-2010

Background

1. At the previous meeting of the Committee, members agreed their general approach to the scrutiny of the Scottish Government’s Draft Budget for 2009-10.\(^1\) This will have a holistic and high-level focus where the Committee considers whether the Scottish Government’s Draft Budget for 2009-2010 is consistent with the Government’s Purpose of increasing sustainable economic growth.\(^2\) The Committee’s approach involves analysing the Draft Budget as a whole, and also key components within the Enterprise, Energy and Tourism portfolios with a view to their contribution to the various governmental targets (on GDP growth\(^3\) and productivity\(^4\) etc).

2. To take forward this agreed approach, the clerks have, after discussions with the Convener, begun to make the following arrangements to enable the Committee to complete its scrutiny within the required period; the Committee must report to the Finance Committee by 13 November, 2008. This means the Committee must sign-off its report at its meeting of 12 December.

3. The approach to the budget scrutiny in this period will consist of—

   **Phase 1: general economic theory**

   8 October committee meeting – a panel of experts to discuss, in general terms, the current challenges in the Scottish economy and the different approaches that governments can take to help stimulate growth. Additionally, the panel can be asked to focus on the particular challenges facing the Scottish economy and what steps the Scottish Government and its agencies should be taking with regard to its budget proposals and planned expenditure.\(^5\) For example, the Scottish Government’s announcement that it will bring forward up to £100 million of spending through the Affordable Housing Investment Programme

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\(^1\) Scottish Government, *Draft Budget 2009-10*, September 2008


\(^3\) To match the GDP growth rate of the small independent EU countries by 2017 and to raise Scotland’s GDP growth rate to the UK level by 2011.

\(^4\) To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017

Phase 2: sectoral focus

29 October committee meeting – a panel or series of panels with a selection of representatives of the main business organisations, trades unions, private-sector companies in key sectors (e.g. house-building and construction, transport (road and rail), energy, financial services, manufacturing etc) to focus on the particular sectoral challenges facing the Scottish economy and what steps the Scottish Government and its agencies should be taking with regard to its budget proposals and planned expenditure.

Phase 3(a): Non-Departmental Public Bodies (NDPBs) and agencies

5 November committee meeting – a panel of senior representatives of key NDPBs and agencies (e.g. enterprise agencies, VisitScotland, Transport Scotland, Scottish Water, proposed Scottish Futures Trust etc) to explore if and how they are using their planned budgets for 2009-10 to tackle the particular challenges currently facing the Scottish economy as identified in the preceding committee meetings.

Phase 3(b): Scottish Government

5 November committee meeting – evidence from a Scottish Government minister and/or Cabinet Secretary and senior officials from the relevant directorates general. This will be followed by a discussion on emerging issues to help inform the drafting of the report.

Phase 4: Report

12 November committee meeting – finalisation of the committee’s report to the Finance Committee

4. In light of the above, the first panel of experts has been invited to today’s meeting to discuss the issues outlined above as part of phase 1.

Recommendation

5. Members are asked to note the above approach and timetable and begin scrutiny of the Draft Budget proposals for 2009-10 at today’s meeting.

Stephen Imrie
Clerk to the Committee
29 September 2008
INTRODUCTION

The Draft Budget 2009-10 (Scottish Government 2008a) was published on 16 September 2008 and sets out the Scottish Government’s spending plans for 2009-10 and 2010-11. It updates the spending plans issued by the Scottish Government in the Scottish Budget Spending Review 2007 document (Scottish Government, 2007a).

The purpose of this briefing paper is to provide Committee members with a summary of the broad trends in the Scottish Government Draft Budget 2009-10 relating to economy, energy and tourism.

KEY POINTS

- In 2009-10, there is a planned real terms increase in the total Scottish Government budget of 1.5% on the previous year and a planned real terms increase in spending within the Finance & Sustainable Growth portfolio of 1.4%.
- The Cabinet Secretary for Finance & Sustainable Growth acknowledges the global economic slowdown within the Draft Budget 2009-10 publication. Within the publication it is detailed that “as part of a package of Scottish Government actions to strengthen the Scottish economy, the delivery of affordable homes across Scotland is being accelerated”.
- Within the Finance & Sustainable Growth portfolio there is a planned real terms decrease in spending on Enterprise, Energy & Tourism in 2009-10 of -5.7% on the previous year.
- Within the Enterprise, Energy & Tourism budget, Enterprise Agencies account for 72% of real terms spending plans in 2009-10.
- Enterprise Agencies also account for 80% of the monetary reduction in spending plans within the Enterprise, Energy & Tourism budget in the year to 2009-10. This reflects both a tighter operational focus and a cut in direct capital funding for the Agencies.
- When the Enterprise, Energy & Tourism Draft Budget 2009-10 spending plans are compared with those presented within the Spending Review 2007 the one budget change is a decrease of £161.5/157.8/151.4 million due to the transfer of the training and skills funding from the Enterprise Networks to Skills Development Scotland. This does not account for the reduction in spend on Enterprise Agencies highlighted above.
BACKGROUND

Scottish Government Purpose

The Government Economic Strategy sets out how the Government intends to deliver its overarching Purpose which is:

“to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable growth” (Scottish Government, 2007b).

The Strategy details targets to track progress towards achieving sustainable economic growth with the immediate growth target being to raise Scotland’s GDP growth rate to the UK level by 2011.

THE DRAFT BUDGET 2009-10 IN THE CONTEXT OF THE CURRENT ECONOMIC CLIMATE

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 (SPICe, 2008). According to the Royal Bank of Scotland (RBS):

“The economic outlook has clearly deteriorated; the financial sector is too important to overall economic activity for this not to be the case. Data releases last week shed further light on the current state of play. In keeping with the downbeat mood, inflation and unemployment are both rising” (RBS, 22nd September 2008).

The Scottish Government’s Draft Budget 2009-10 acknowledges the challenging economic climate and within the foreword the Cabinet Secretary for Finance & Sustainable Growth states:

“Scotland is not immune from the effects of a global economic slowdown. While the Scottish economy continues to show encouraging signs of resilience we are not complacent. This Government will not sit on its hands and wait for circumstances to improve. That is why we have again reviewed our spending plans and why the budget we are bringing forward for 2009-10 will promote growth, support business confidence and help Scotland meet the economic challenges we face.

Scotland’s economy could be more successful. This Government will do all it can with the levers available to us to achieve ambitious goals for growth. This budget will accelerate capital spending that supports growth. It furthers our efforts to reduce costs to businesses and householders and it promotes action to make our economy more competitive” (Scottish Government, 2008a).

Within the Draft Budget 2009-10 it is stated that “as part of a package of Scottish Government actions to strengthen the Scottish economy, delivery of affordable homes across Scotland will be accelerated by bringing forward up to £100m of affordable housing investment to be spent this year and next, rather than 2010-11 as originally planned” (Scottish Government, 2008a). No further elements of this package are detailed within the Draft Budget 2009-10 publication.
DRAFT BUDGET 2009-10

Level 1 spending plans

Table 1 sets out the Scottish Government’s Total Managed Expenditure along with Level 1 spending plans for the Finance & Sustainable Growth portfolio in cash and real terms. It includes the percentage change planned in the next two financial years.

<table>
<thead>
<tr>
<th>Level 1 spending plans CASH AND REAL TERMS</th>
<th>2008-09 Budget £m</th>
<th>2009-10 Draft Budget £m</th>
<th>2010-11 Plans £m</th>
<th>Annual change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Scottish Government Budget CASH TERMS</td>
<td>33,314.2</td>
<td>34,760.5</td>
<td>35,911.8</td>
<td>4.3% 3.3%</td>
</tr>
<tr>
<td>Total Scottish Government Budget REAL TERMS</td>
<td>33,314.2</td>
<td>33,830.2</td>
<td>34,039.6</td>
<td>1.5% 0.6%</td>
</tr>
<tr>
<td>Finance &amp; Sustainable Growth CASH TERMS</td>
<td>5,829.3</td>
<td>6,073.2</td>
<td>6,221.1</td>
<td>4.2% 2.4%</td>
</tr>
<tr>
<td>Finance &amp; Sustainable Growth REAL TERMS</td>
<td>5,829.3</td>
<td>5,910.7</td>
<td>5,896.8</td>
<td>1.4% -0.2%</td>
</tr>
</tbody>
</table>

- The Scottish Government’s proposed real terms Total Managed Expenditure (including the Scottish Parliament and Audit) amounts to £33.8 billion in 2009-10, an increase in real terms of 1.5% from that in 2008-09, with an increase of 0.6% planned for 2010-11.
- In the Finance & Sustainable Growth portfolio the planned real terms spending amounts to £5.9 billion in 2009-10, an increase of 1.4% from that in 2008-09, with a decrease of -0.2% planned for 2010-11.

Level 2 spending plans

Table 2 sets out the Level 2 spending plans for the Enterprise, Energy & Tourism budget line within the Finance & Sustainable Growth portfolio in cash and real terms. It includes the percentage change planned in the next two financial years.

<table>
<thead>
<tr>
<th>Finance &amp; Sustainable Growth Portfolio: Level 2 Spending Plans CASH AND REAL TERMS</th>
<th>2008-09 Budget £m</th>
<th>2009-10 Draft Budget £m</th>
<th>2010-11 Plans £m</th>
<th>Annual change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise, Energy &amp; Tourism CASH TERMS</td>
<td>525.7</td>
<td>509.1</td>
<td>522.6</td>
<td>-3.2% 2.7%</td>
</tr>
<tr>
<td>Enterprise, Energy &amp; Tourism REAL TERMS</td>
<td>525.7</td>
<td>495.5</td>
<td>495.4</td>
<td>-5.7% 0.0%</td>
</tr>
</tbody>
</table>

- There is a planned real terms decrease in spending on Enterprise, Energy & Tourism in 2009-10 of -5.7% on the previous year, with no change proposed for 2010-11.
- The draft budget 2009-10 reflects the Finance & Sustainable Growth portfolio’s responsibility for refocusing the enterprise networks, promoting the Scotland’s tourism industry, contributing to tackling climate change and improving energy efficiency (Scottish Government, 2008a).
**Level 3 spending plans**

Tables 3 and 4 set out the Level 3 spending plans within the Finance & Sustainable Growth portfolio for the Enterprise, Energy & Tourism budget line in cash and real terms. They also show the percentage change planned in the next two financial years.

**Table 3 – Level 3 spending plans in cash terms**

<table>
<thead>
<tr>
<th>Enterprise, Energy and Tourism: Level 3 Spending Plans CASH TERMS</th>
<th>2008-09 Budget</th>
<th>2009-10 Draft Budget</th>
<th>2010-11 Plans</th>
<th>Annual change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>2009-10 Draft Budget</td>
<td>2010-11 Plans</td>
</tr>
<tr>
<td>Enterprise Networks</td>
<td>378.9</td>
<td>364.8</td>
<td>368.3</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Innovation &amp; Investment Grants</td>
<td>52.0</td>
<td>52.0</td>
<td>52.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Energy &amp; Telecommunications</td>
<td>33.5</td>
<td>33.0</td>
<td>33.0</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Business Growth &amp; Innovation</td>
<td>10.0</td>
<td>10.0</td>
<td>20.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Tourism</td>
<td>47.8</td>
<td>46.8</td>
<td>46.8</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Enterprise &amp; Industry</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.0%</td>
</tr>
<tr>
<td>Scottish Development International</td>
<td>1.7</td>
<td>0.7</td>
<td>0.7</td>
<td>-58.8%</td>
</tr>
<tr>
<td>European Structural Funds</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>525.7</strong></td>
<td><strong>509.1</strong></td>
<td><strong>522.6</strong></td>
<td><strong>-3.2%</strong></td>
</tr>
</tbody>
</table>

**Table 4 – Level 3 spending plans in real terms**

<table>
<thead>
<tr>
<th>Enterprise, Energy and Tourism: Level 3 Spending Plans REAL TERMS</th>
<th>2008-09 Budget</th>
<th>2009-10 Draft Budget</th>
<th>2010-11 Plans</th>
<th>Annual change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>2009-10 Draft Budget</td>
<td>2010-11 Plans</td>
</tr>
<tr>
<td>Enterprise Networks</td>
<td>378.9</td>
<td>354.8</td>
<td>348.0</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Innovation &amp; Investment Grants</td>
<td>52.0</td>
<td>50.6</td>
<td>49.1</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Energy &amp; Telecommunications</td>
<td>33.5</td>
<td>32.1</td>
<td>31.2</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Business Growth &amp; Innovation</td>
<td>10.0</td>
<td>9.7</td>
<td>18.9</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Tourism</td>
<td>47.8</td>
<td>45.5</td>
<td>44.2</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Enterprise &amp; Industry</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Scottish Development International</td>
<td>1.7</td>
<td>0.7</td>
<td>0.7</td>
<td>-60.0%</td>
</tr>
<tr>
<td>European Structural Funds</td>
<td>1.6</td>
<td>1.6</td>
<td>1.5</td>
<td>-2.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>525.7</strong></td>
<td><strong>495.5</strong></td>
<td><strong>495.4</strong></td>
<td><strong>-5.7%</strong></td>
</tr>
</tbody>
</table>

1Including Scottish Enterprise and Highlands & Islands Enterprise
2Including Regional Selective Assistance
3Including VisitScotland
4Programme Administration and Consultancies

An analysis of the proposed Level 3 Draft Budget 2009-10 spending plans for Enterprise, Energy & Tourism and the notes accompanying them as explained by the Scottish Government are set out in a table within the ANNEX.
**A closer look at spending plans for the Enterprise Networks**

The Enterprise Networks account for 72% of total planned real terms spend for 2009-10 within the Enterprise, Energy & Tourism Level 2 budget line as is illustrated in Chart 1 below:

![](chart1.png)

The Enterprise Networks also account for the 80% of the monetary reduction in real terms spending plans within the Enterprise, Energy & Tourism Level 2 budget line in the year to 2009-10 (£24.1 million of a total £30.2 million reduction).

As highlighted within Table 5 this is as a result of a much tighter operational focus (reduced running and salary costs) and a cut in direct capital funding (in line with the Enterprise Networks increasing ability to fund capital projects through asset sales and private sector collaboration). These 2 aspects are considered in more detail below.

**Tighter operational focus**

It is detailed within the Efficiency Delivery Plans 2008-11 that restructuring by both Scottish Enterprise and Highlands & Islands Enterprise will result in reduced operational costs. It was anticipated that Scottish Enterprise would cut staffing/accommodation costs by c. £8 million in 2008-09 and c. £10 million annually thereafter. It was anticipated that Highlands & Islands Enterprise would cut staffing costs by £2.1 million annually (Scottish Government, 2008b).

**Cut in direct capital funding**

This cut is a reflection of the Enterprise Networks increasing ability to fund capital projects through asset sales and private sector collaboration. It is detailed within the Scottish Enterprise Business Plan 2008-11 that the agency anticipates an income of £25/33/29 million over the period from property disposals (Scottish Enterprise, 2008). It is detailed within the Highlands & Islands Enterprise Operating Plan 2008-11 that the agency anticipates an income of £4.5/3.5/3.5 million over the period from capital (Highlands & Islands Enterprise, 2008) with no further breakdown provided.
Efficiency savings

The Draft Budget 2009-10 reiterates the Scottish Government’s intention to deliver 2% cash releasing savings in each year of the Spending Review. The Efficiency Delivery Plans 2008-11 detail the following efficiency savings anticipated by each organisation within the Enterprise, Energy and Tourism budget:

<table>
<thead>
<tr>
<th>Agency</th>
<th>Anticipated efficiency savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Enterprise</td>
<td>Restructuring to reduce staffing/accommodation costs by c. £8 million in 2008-09 and c. £10 million annually thereafter.</td>
</tr>
<tr>
<td>Highlands &amp; Islands Enterprise</td>
<td>Restructuring to cut staffing costs by £2.1 million annually.</td>
</tr>
<tr>
<td></td>
<td>Efficiencies of £0.23 million annually through:</td>
</tr>
<tr>
<td></td>
<td>- Reduction in spend on staff business travel elements</td>
</tr>
<tr>
<td></td>
<td>- Reduction in spend on office accommodation</td>
</tr>
<tr>
<td></td>
<td>- Reduce/eliminate invoices from ad hoc facilities procurement</td>
</tr>
<tr>
<td></td>
<td>- Reduction in spend on sundry office supplies</td>
</tr>
<tr>
<td>VisitScotland</td>
<td>Restructuring to reduce operational spend by £0.5-1 million annually.</td>
</tr>
<tr>
<td></td>
<td>Office co-location and the re-organising of Tourist Information Centres to reduce spend by £0.25 million annually.</td>
</tr>
<tr>
<td></td>
<td>Improved procurement to reduce spend by £0.47 million annually.</td>
</tr>
<tr>
<td>European Structural Funds</td>
<td>Reduction in the number of external delivery bodies administering Structural Funds programmes to reduce costs by £1.64 million annually.</td>
</tr>
<tr>
<td></td>
<td>Efficiency saving measures not yet quantified:</td>
</tr>
<tr>
<td></td>
<td>- Reducing limits and extending coverage of Regional Selective Assistance to deliver more economic growth and lower cost for jobs</td>
</tr>
<tr>
<td></td>
<td>- Energy Savings Trust Efficiencies through delivering more schemes for the same money</td>
</tr>
<tr>
<td></td>
<td>- Passing responsibility for some schemes to Scottish Enterprise and the Scottish Funding Council should achieve administration savings and delivery gains.</td>
</tr>
</tbody>
</table>

(Scottish Government, 2008b)

According to the Efficiency Delivery Plans 2008-11 relevant organisations will use relevant savings to deliver increased front line services and grants to customers (Scottish Government, 2008b).

Comparison of Draft Budget 2009-10 with the Spending Review 2007

Within Enterprise, Energy & Tourism it should be noted that when the Draft Budget 2009-10 spending plans are compared with those presented within the Scottish Budget Spending Review 2007 the one budget change is a decrease of £161.5/157.8/151.4 million due to the transfer of the training and skills funding from the Enterprise Networks to Skills Development Scotland (Education and Lifelong Learning portfolio). Note, as this spend is not included within the Enterprise, Energy & Tourism budget within the Draft Budget 2009-10 publication it does not account for the reduction in spend on Enterprise Agencies highlighted earlier in this briefing.

Scherie Nicol
SPIeC Research
October 2008
SOURCES


**ANNEX**

Scottish Government notes on Draft Budget 2009-10 spending plans

<table>
<thead>
<tr>
<th>Proposed budget plans</th>
<th>Scottish Government notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enterprise Networks</strong></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>A real terms decrease of -6.4% on the previous year.</td>
</tr>
<tr>
<td></td>
<td>There is a much <strong>tighter operational focus</strong> as a result of the reforms announced on 26 Sept 2007, visible as reduced running and salary costs over the period.</td>
</tr>
<tr>
<td>2010-11</td>
<td>A real terms decrease of -1.9% on the previous year.</td>
</tr>
<tr>
<td></td>
<td>There is a <strong>cut in direct capital funding</strong> in line with the Enterprise Networks increasing ability to fund capital projects through asset sales and private sector collaboration.</td>
</tr>
<tr>
<td></td>
<td>There will be a <strong>further adjustment for the transfer of Business Gateway activities to local government once arrangements are finalised</strong> – no target date is provided.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Comparison with 2007 Spending Review</strong></th>
<th>Decrease of £161.5/157.8/151.4 million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Innovation &amp; Investment Grants</strong></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>A real terms decrease of -2.8% on the previous year.</td>
</tr>
<tr>
<td></td>
<td>No note is provided on why there is a reduction of spend in real terms.</td>
</tr>
<tr>
<td>2010-11</td>
<td>Again, a real terms decrease of -2.8% on the previous year.</td>
</tr>
<tr>
<td></td>
<td>The SMART: SCOTLAND programme and Regional Selective Assistance are funded through this budget. <strong>Both grants will in the future be delivered by Scottish Enterprise under joint venture agreements with the Government</strong> – no target date is provided.</td>
</tr>
</tbody>
</table>

| **Energy & Telecommunications**          |                                        |
| 2009-10                                  | A real terms decrease of -4.2% on the previous year. |
|                                          | No note is provided on why there is a reduction of spend in real terms. However, the Spending Review 2007 detailed one-off costs in 2008-09 of the consultation for the Scottish Climate Change Bill. |
| 2010-11                                  | A real terms decrease of -2.8% on the previous year. |
|                                          | This budget includes funds for providing energy advice to householders, encouraging the development/adoption of renewable and microgeneration technologies, introducing Energy Efficiency Design Awards and contributing to the costs of the UK Committee on Climate Change. |
### Business Growth & Innovation

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Term Change</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>Decrease of -2.8%</td>
<td>No note is provided on why there is a reduction of spend in real terms followed by an increase in spend. However, the Spending Review 2007 details an increase of £10 million for the Saltire and Horizon Prize budget line in 2010-11.</td>
</tr>
<tr>
<td>2010-11</td>
<td>Increase of 94.3%</td>
<td>This budget includes funds for a range of innovation activities and Knowledge Transfer programmes, the Innovators Counselling &amp; Advisory Service for Scotland, the Intellectual Asset Centre and ad-hoc innovation policy activities carried out under the 1965 Science &amp; Technology Act along with budgets for the Saltire &amp; Horizon prizes.</td>
</tr>
</tbody>
</table>

### Tourism

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Term Change</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>Decrease of -4.8%</td>
<td>No note is provided on why there is a reduction of spend in real terms.</td>
</tr>
<tr>
<td>2010-11</td>
<td>Decrease of -2.8%</td>
<td>The majority of the VisitScotland budget is to fund marketing with the remainder for funding EventScotland activities (including promotion of the Ryder Cup), Tourist Information Centres and to help tourism businesses.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>It is worth noting that within the First Minister’s portfolio there is an additional budget allocation of £3.2/3.2/3.2 million for Major Events and Themed Years.</td>
</tr>
</tbody>
</table>

### Scottish Development International

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Term Change</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>Decrease of -60.0%</td>
<td>No note is provided on why there is a reduction of spend in real terms.</td>
</tr>
<tr>
<td>2010-11</td>
<td>Decrease of -2.8%</td>
<td>This budget assists local companies expand internationally and provides funding to attract foreign investment as well as to support international companies already based in Scotland.</td>
</tr>
</tbody>
</table>

### European Structural Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Term Change</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>Decrease of -2.8%</td>
<td>No note is provided on why there is a reduction of spend in real terms.</td>
</tr>
<tr>
<td>2010-11</td>
<td>Decrease of -2.8%</td>
<td>Again, a real terms decrease of -2.8% on the previous year.</td>
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Economy, Energy and Tourism Committee

19th Meeting, 2008 (Session 3), Wednesday, 8 October 2008

THE ‘CREDIT CRUNCH’ AND THE IMPACT ON THE SCOTTISH ECONOMY – OPTIONS FOR THE WAY FORWARD

Background

1. At the last meeting of the Committee, members took evidence from a series of experts in two round-tables on the impact of the ‘credit crunch’ on the Scottish economy. The round-tables were specifically focused on the financial services sector and banking and then on house-building, construction and the property sectors.

2. At the conclusion of the round-tables, members asked the clerk to draft an options paper setting out some proposals for how the Committee may wish to take forward its deliberations in this matter. This paper sets out some ideas for the Committee to consider. Members are, of course, free to make alternative suggestions.

3. However, in doing so, members may wish to take into account two factors. First, members of the Committee have now agreed their approach to the scrutiny of the Scottish Government’s Draft Budget proposals for 2009-2010. In taking forward their approach on this subject, the Committee will be looking to some degree at how the Scottish Government is addressing some of the challenges facing the Scottish economy, albeit related only to how the Scottish Government can adapt its budget for 2009-10 in light of the current difficulties in the economy.

4. Second, as mentioned in the Chamber, the leader of the Scottish Liberal Democrats has written to the Committee Convener and to the Chairman of the Treasury Committee in the House of Commons. In his letter, Mr Scott MSP calls for the two committees to convene a ‘joint inquiry’ into the banking failures that led to the crisis, in particular the Lloyds TSB proposed takeover of HBOS plc, and the impact that these will have on business and the prosperity of companies and individuals throughout Scotland. In his reply, the Convener has written to Mr Scott MSP (see Annex A) and stated that this is a matter for the Committee itself to discuss. He has also written in a similar vein to Rt Hon John McFall MP, Chairman of the Treasury Committee in the House of Commons. The latter’s reply is set out in Annex B. Members may wish to take into account this correspondence when considering how they wish to take forward their deliberations on the credit crunch.

Options

5. There are a variety of options available to the Committee to follow-up on the evidence heard to date. In taking forward any of these, members will need to have due regard to the specific remit of the Economy, Energy and Tourism

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1 Official Report, 24 September, 2008, Col 11101
Committee, the powers of the Scottish Parliament, the Parliament’s rules and procedures as well, of course, of the Committee’s current work programme.

6. In light of the above, the following are some of the options that the Committee may like to consider. These have been discussed with the Convener of the Committee—

**Option 1 – Watching Brief** – to ask the clerks and SPICe researchers to continue to track developments in relation to the ‘credit crunch’ generally, and the Lloyds TSB/HBOS take-over specifically, and, if necessary, produce further briefing material and research for the Committee’s consideration. This could, if members wish, lead to further evidence-taking sessions of the type organised at the previous meeting of the Committee. This option would enable members to keep abreast of developments and enable the Committee to take further evidence if needs be.

**Option 2 – Mainstreaming** – to mainstream any further consideration of the issues into the Committee’s budget scrutiny work. This would mean that the Committees deliberations on the ‘credit crunch’ would be set within the context of what the Scottish Government and its agencies and non-departmental public bodies (e.g. enterprise agencies, skills bodies etc) are planning to do with the budget proposals for 2009-10 to stimulate growth in the economy and construction in particular (e.g. bringing forward of construction projects, removing VAT on housing repairs, supporting first-time buyers etc).

**Option 3(a) – Short, ‘joint inquiry’** – to organise informal meetings\(^2\) along with members of the House of Common’s Treasury Committee to listen to views on the credit crunch, the impact on the UK economy and Scotland in particular, as well as the particular circumstances behind the proposed takeover of HBOS plc by Lloyds TSB. The types of questions that could be addressed as part of this investigation would include—

*In general*

- what were the origins of the credit crisis?

- what impact the credit crisis is having on the financial services and banking sector in the UK and Scotland in particular?

- what changes need to be made by governments and regulators in the longer term to prevent similar situations arising again (this could include considering issues of regulation, transparency in company accounts, reformation

\(^2\) The Scotland Act 1998 and the Parliament’s standing orders would prevent formal, joint meetings of the Committee with the involvement of members of the UK Parliament. It is understood, from House of Commons officials, that similar provisions exist in the UK Parliament.
of credit rating agencies, use of derivatives, the bonus culture and compensation packages on failure, the future role of central banks etc.)

**Lloyds TSB/HBOS related**

- what were the circumstances leading to the proposed take-over of HBOS plc by Lloyds TSB, the role of governments and the role of hedge funds and of short-selling in the process?

- what part did HBOS’s business model play in its problems and what are the implications of the new bank (e.g. on a strong Scottish brand within the new group)?

- were there any historical reasons from the merger of the Bank of Scotland with the Halifax that exacerbated the problems that HBOS plc has faced?

- what are the particular impacts that this take-over will have on: the ‘real’ economy; decreased competition in the sector; the prosperity of companies (through competition issues and on availability of credit); on individuals throughout the UK and Scotland in particular (through possible direct and indirect job losses, branch closures in urban and rural locations etc); on civic Scotland (e.g. loss of charitable donations etc); as well as on Scotland’s reputation as a centre for financial services (e.g. through a loss of headquarters-type decision-making functions)?

- how realistic are any alternatives to the proposed take-over of HBOS plc by Lloyds TSB?

The eventual outcome of this work would be a joint ‘report’ or statement from the two committees. This report/statement would not be considered as a formal report of either of the two committees as it is not possible for these committees to hold a formal, joint inquiry. However, the Economy, Energy and Tourism Committee could choose to adopt the joint statement/report as its own and incorporate this as an annex into a formal report of the Committee. Effectively, we would have a brief formal report from the Committee noting or adopting the report of the joint informal meetings and publishing it in an annex. That would give it some status if that is desirable for the Committee.

An alternative to the Treasury Committee in the House of Commons would be to approach the Scottish Affairs Committee if it was felt that this would be beneficial in terms of an approach that was more focused on the economy in Scotland.

Members will wish to note that the Treasury Committee has not given any assurances that it would be willing to proceed with this option and it may be that more recent events, such as the nationalisation of Bradford & Bingley and in the consideration of the
‘bail-out’ bill by the US Congress, may need to be considered by MPs as a matter of priority. The Treasury Committee Chairman has indicated his committee will consider this matter at its meeting of 14 October.

**Option 3(b) – Short, standalone inquiry** – to organise a series of evidence-taking sessions without any involvement of any Westminster committee, leading to an inquiry report by the Economy, Energy and Tourism. If this option is agreed to, members would need to have due regard to issues of remit and the powers of the Scottish Parliament. This would not necessarily preclude consideration of reserved issues – such as banking regulation etc – but it may make it difficult to call for evidence from bodies that are not accountable to the Scottish Parliament. A clearer focus, therefore, for the Committee would be to focus on the economic impacts in Scotland of the credit crisis and any mergers/take-overs in the banking sector.

**Option 4 – informal meeting(s) with Westminster, followed by a stand-alone report by the Economy, Energy and Tourism Committee** – given the competing work programmes and the procedural complications of holding formal, joint inquiries, the Committee could choose the hold an informal meeting(s) - or alternatively a videoconference - with members of the Treasury Committee either in Edinburgh and/or London to explore matters of common interest such as the questions set out in option 3(a) above. Subsequently, the Economy, Energy and Tourism Committee alone could proceed with Option 3(b), take some formal evidence and produce a short report focused on the economic impacts in Scotland of the credit crunch and the proposed take-over of HBOS plc by Lloyds TSB in particular.

**Recommendation**

7. Members are invited to consider the above options or any other additional proposal that they themselves may have and agree a way forward for the Committee’s future deliberations. At this stage, the Convener favours option 3(a) as the preferable way forward, providing the Treasury Committee is amenable.

Stephen Imrie  
Clerk to the Committee  
September 2008
LETTER SENT TO MR TAVISH SCOTT, DATED 25 SEPTEMBER 2008

Dear Tavish,

LloydsTSB and HBOS: joint inquiry with the Treasury Select Committee

Thank you for your recent letter on the proposal to hold a joint inquiry on the above-mentioned subject between Holyrood and Westminster committees. I believe that you have written in similar terms to Rt Hon John McFall MP in his capacity as chairman of the House of Commons’ Treasury Select Committee.

I am happy to consider your suggestion, though ultimately this is a matter for the Committee to determine. Consequently, I shall discuss this matter with other members of the Committee at the earliest opportunity. I shall also be writing to Rt Hon John McFall MP for his views on this proposal. You should be aware, however, that even if the two committees decide to do something of this nature, we will need to consider carefully the exact format of any ‘joint inquiry’, the terms of reference and the likely outcome as there are both legal and procedural limitations on what we can do together, in addition to matters of timescale, compatibility with existing workloads etc.

I shall reply to you once I have had a chance to discuss the matters with other members of the Committee and with our Westminster counterparts.

Kind regards,

Iain Smith MSP, Convener
LETTER FROM RT HON JOHN MCFALL MP, DATED 30 SEPTEMBER 2008

Dear Mr Smith

Thank you for your letter of 25 September concerning the possibility of a joint inquiry between the Treasury Committee of the House of Commons and the Economy, Energy and Tourism Committee of the House of Commons into the merger of HBOS and Lloyds TSB.

I will place your letter before the Treasury Committee at its next meeting and will then be in a position to provide a substantive reply to your letter. Because of a long-planned visit that is taking place next week, the Treasury Committee will not be meeting until Tuesday 14 October.

Kind regards

John McFall
Chairman
Treasury Committee
Economy, Energy and Tourism Committee

19th Meeting, 2008 (Session 3), Wednesday, 8 October 2008

INVITATION TO THE COUNCIL OF ECONOMIC ADVISERS

Background

1. On 24 October 2007, members of the Committee took evidence from Sir George Mathewson in his capacity as Chair of the Scottish Government’s Council of Economic Advisers. The intention was that this would be the first of a series of appearances by a representative of the Council to brief the Committee on its work.

2. Following the agreement to its work programme on 10 September, a formal invitation to Sir George Mathewson was extended to appear at the Committee on the 8 October 2008, to follow the meeting of the Council held in Cumnock on 3 October 2008. This formal invitation followed a series of informal discussions and exchanges of correspondence at official level, dating from July 2008.

3. On 17 September, the clerk received notification that Sir George Mathewson was unable to appear on the 8 October. Subsequently, the Convener of the Committee wrote to the First Minister seeking his assistance in this matter and proposing alternative options; a copy of this letter has previously been circulated.

4. On 25 September, the Convener received a reply from the First Minister and he has subsequently replied. Copies of all the correspondence are attached in the annex.

Recommendation

5. Members of the Committee are asked to note the correspondence and discuss how they would wish to proceed.

Stephen Imrie
Clerk to the Committee
October 2008
Dear First Minister,

Council of Economic Advisers

You will recall that following your statement in the Parliament on 28 June 2007 in which you stated, “Sir George Mathewson has indicated that he would welcome the opportunity to appear before parliamentary committees, which he thinks would be a useful addition to the council's ability to get across its views”, that the Economy, Energy and Tourism Committee was pleased to take this idea forward and to hear from the Chairman of the Council of Economic Advisers in October of that year. I know members of the Committee found it useful.

At that time, members of the Committee agreed that it is important to hear on a continuing basis about the work of the Scottish Government’s Council, as this body has an important advisory function for you and the Scottish Government. At our meeting of 10 September 2008, all members of the Committee agreed to our work programme, which contains a reference to a meeting with the Council for October 2008.

You may not be aware, however, that the invitation for this follow-up appearance was extended to Sir George via the Scottish Government’s secretariat in early July 2008. After a long period of delay, our clerks were advised by your officials on 16 September that the Committee needed to approach Sir George directly, via the Royal Bank of Scotland. Regrettably, and perhaps understandably given the short period of time now available, Sir George is not free to appear at the Committee on our preferred date or indeed any suitable date until late November, well over one year since his last appearance.

I find this situation unsatisfactory and one which inhibits the Committee from questioning Sir George on the work of this important group. I make no criticism here of Sir George or the Royal Bank of Scotland as they have only recently heard directly from us about the invitation.

Given that the Council of Economic Advisers is a Scottish Government formed entity, I feel it is incumbent on you and your officials to organise its work effectively, including the appearances by its Chairman and others at parliamentary committees which you yourself suggested in June 2007.

Consequently, I would ask you to look into this matter and arrange, if possible, for another member of the Council to brief the Committee on its work at our meeting on the morning of 8 October 2008. Failing that, perhaps you would like to appear before the Committee to discuss the Council's work and how it
is shaping the work of your Government, given that this body directly advises you.

I look forward to your response.

Yours sincerely,

Iain Smith MSP
Convener

cc. Members of the Economy, Energy and Tourism Committee

(b) Response from the First Minister, dated 25 September, 2008

Dear lain

Council of Economic Advisers

Thank you for your letter of 19 September regarding Sir George Mathewson's follow-up appearance before the EET Committee.

As you point out, the invitation for this appearance was received via the Scottish Government's Secretariat in July 2008. However, you will recognise that the Scottish Government Secretariat responded very promptly with the suggestion that it would be much more appropriate for Sir George to re-appear before the EET Committee following the publication of the Council of Economic Adviser's Annual Report in early November 2008. This timeframe was, after all, agreed by Sir George and the EET Committee at the Committee's meeting in October 2007.

The EET Committee's correspondence has not recognised this agreement, and has suggested the alternative date of 8 October in full knowledge that it would fall before the publication of the Council of Economic Adviser's Annual Report. Moreover, you will recognise that it took the Clerk until early September 2008 to formally respond to the Scottish Government Secretariat's initial response of July 2008.

We fully welcome the opportunity for Sir George to brief the EET Committee on work of the Council of Economic Advisers and for the Committee in turn to question aspects of this important work. I understand that Sir George would be delighted to appear later in the year, as he initially conveyed, after the publication of the Council of Economic Adviser's Annual Report.

Alex Salmond
(c) Reply by the Convener, dated 2 October, 2008

Dear First Minister,

Council of Economic Advisers

Thank you for your letter of 25th September responding to my earlier correspondence. It is deeply regrettable that no-one from the Council of Economic Advisers will now be appearing at our Committee meeting of 8th October 2008. This was an invitation and timetable that was agreed to by all members of the Committee as part of our work programme. I am also disappointed that you yourself have not agreed to attend on this day as an alternative to Sir George Mathewson. I am assuming this is the case as you did not actually respond to the invitation I made in my original letter.

There are a number of significant and important issues that the Committee would have found it useful to discuss with the Council of Economic Advisers at this challenging time. With the problems in the banking sector and the economy more widely, it would have been very valuable to have heard what advice this important group of experts were offering the Government. It would also have been useful to have been better informed of the Council’s deliberations at their meeting in Cumnock on Friday 3rd October.

I welcome your view that it is important that Sir George, or a fellow member of the Council of Economic Advisers, appears before the Committee at regular intervals to discuss its important work. I am glad that you recognise that it is necessary for Sir George to brief the Committee on the Council's work, the views of its members and the advice that it gives the Government.

You are, however, incorrect that there was any such agreement between Sir George and the Committee that he would appear once-per-year and only following the publication of the annual report of the Council of Economic Advisers. I have looked at the Official Report of the Committee’s meeting of 24th October 2007 (the date of Sir George’s last appearance) and no such agreement was made or formal decision taken by the Committee.

During the meeting, Sir George himself suggests an annual appearance of this nature and indeed, one former member of the Committee welcomes his comments to this effect. However, Sir George also stated that there would “definitely be a meeting [between the Committee and himself] after the annual report”, but that there needed to be “a degree of flexibility [on meeting dates as]; we are at the start of a road here”. It is certainly not clear from this meeting that this constitutes an agreement to appear only after the publication of an annual report.

Furthermore, the Committee did not take any formal decision in October 2007 nor did the then Convener indicate, on behalf of the Committee, any acceptance to this timescale for appearances. You are mistaken, therefore when you indicate that has been any such “agreement”.

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In any case, it is not a matter for an external body to dictate to a parliamentary committee when it chooses to appear but for a committee to choose when it wishes to invite a witness to give evidence. I trust, therefore, that you will continue to honour the pledge you made in the Parliament on 28th June 2007 that Sir George would be willing to appear before parliamentary committees if he was invited.

You may be aware that Sir George has, through his former colleagues in the Royal Bank of Scotland, now indicated that he would be prepared to appear before the Committee on the 19th November, 2008. Consequently, I will be discussing with other members of the Committee whether to proceed with this new date. I assume this is convenient in terms of the publication of the Council’s annual report.

I look forward to your response on this matter.

Yours sincerely,

Iain Smith MSP
Convener
Economy, Energy and Tourism Committee

19th Meeting, 2008 (Session 3), Wednesday, 8 October 2008

PROPOSED JOINT SEMINAR WITH THE SCOTTISH TRADE UNION CONGRESS (STUC)

Background

1. This proposal for a joint event with the STUC originates from a recommendation made by the then Enterprise and Culture Committee in its legacy paper. The Economy, Energy and Tourism Committee agreed with this recommendation and included it in its work programme. The Committee agreed to hold this event annually.

The Proposal

2. The title of the proposed seminar “Trade Unions and the Arc of Prosperity” will provide an opportunity for MSPs and trade union representatives to discuss issues relevant to the Committee. The programme will include presentations by key speakers followed by discussion sessions. Presentations will focus on the economic and social models within these countries, the role of social partnership and potential lessons for Scotland. The event would be open to any MSP who wishes to attend, not just members of the Committee.

3. The Scottish Government’s Economic Strategy draws on the lessons and approaches of the successful small economies of Norway, Finland, Iceland, Ireland and Denmark referred to as the Arc of Prosperity countries. The strategy established a new target framework which included matching the GDP growth rate of the small EU countries by 2017.

4. Since publication of the strategy, debate has grown about merits of this target and the nature of the lessons Scotland can learn from these countries. Debate has focused on:

- **Economic strategy target**: the appropriateness of the target and the rigour of statistical comparisons;
- **The economic and social models** in these countries vary markedly – social spending is considerably higher in Norway, Denmark and Finland than Ireland; the difficulty in extracting practical lessons from Denmark’s flexicurity model etc;
- **Stage of development** - Scotland is in a very different place to Ireland in 1987 when the latter embarked on economic reform. Ireland’s model of social partnership was adapted to meet specific needs and build on specific advantages. The Nordic models build on a strong social democratic consensus that has ensured decades of high investment. Neither of these models is easily replicated;
Powers of the Parliament - the First Minister’s interest clearly lies in his belief that the success of these countries stems from them being ‘small and independent’. Are further powers necessary to apply lessons learned from these states or could practical measures be implemented under the current settlement;

Durability - the Irish and Icelandic models have been, until this year, untested in a global economic downturn. Current evidence suggests that they are not standing up well to current challenges;

Taxation – are further fiscal powers necessary to replicate the arc’s success?

Date and Participants

5. It is proposed to hold this half-day event, along similar lines to this year’s event, in the Parliament on a Tuesday morning in February 2008. The programme will, subject to availability, include guest speakers such as; Paul Sweeney, Economic Adviser, Irish Congress of Trade Unions and Stein Reegård, Chief Economist, Norwegian Confederation of Trade Unions. The event will end with a buffet lunch.

Decision

6. Members are invited to consider the above proposal and agree the basic format of this event and task the Convener and clerk with the organisation. Members should also note that the approval of the Conveners Group is required for the expenditure associated with this event.

Gail Grant
Assistant Clerk to the Committee
October 2008