

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 25 June 2008

Session 3

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ECONOMY, ENERGY AND TOURISM COMMITTEE

15th Meeting 2008, Session 3

CONVENER

*Tavish Scott (Shetland) (LD)

DEPUTY CONVENER

*Brian Adam (Aberdeen North) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothians) (Con)
*Christopher Harvie (Mid Scotland and Fife) (SNP)
*Marilyn Livingstone (Kirkcaldy) (Lab)
*Lewis Macdonald (Aberdeen Central) (Lab)
*Dave Thompson (Highlands and Islands) (SNP)
*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)
George Foulkes (Lothians) (Lab)
Alex Johnstone (North East Scotland) (Con)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Jim Dewar (Scottish Parliament Directorate of Access and Information)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

LOCATION

Committee Room 5

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 25 June 2008

[THE CONVENER *opened the meeting at 09:33*]

Decision on Taking Business in Private

The Convener (Tavish Scott): Good morning, ladies and gentlemen. This is the 15th meeting in 2008 of the Economy, Energy and Tourism Committee. It is the last meeting before the summer recess—a source of considerable regret to all of us.

Do members agree to take agenda items 7 and 8 in private?

Members *indicated agreement.*

National Planning Framework

09:33

The Convener: Item 2 is consideration of a paper on the national planning framework. The paper contains recommendations for how the committee may wish to deal with national planning framework 2. Do members wish to comment on paragraph 6 of the paper?

Lewis Macdonald (Aberdeen Central) (Lab): The paper and the accompanying Scottish Parliament information centre briefing are helpful. We should consider taking evidence on the framework following the summer recess and identify one or two specific areas on which to focus. Clearly, that is dependent on the overall context of how committees are to consider the framework.

The Convener: Indeed.

Gavin Brown (Lothians) (Con): I concur with Lewis Macdonald's conclusion. Given how much we have heard about planning in the course of our tourism inquiry, it would be remiss of us not to consider the national planning framework. One area that we could consider is energy. What I have seen so far indicates that there is a great deal about renewables in NPF 2, but I am not sure that the whole energy picture is covered. One or two transport infrastructure questions also jump out at me—the upgrading of the A9 and the creation of a three-lane M8 appear to be absent from NPF 2. The committee should definitely examine the framework.

The Convener: Those are sensible points. By the time that we come to consider the framework, the Government may have published its strategic transport projects review, which will address some of the issues that Gavin Brown has raised. Depending on how we conclude our consideration of tourism, we may also want to reflect on the investment plan for tourism in the context of the framework.

No member has indicated that they disagree with the suggestions that have been made. Are colleagues content to leave the final scheduling of witnesses to the convener and deputy convener?

Lewis Macdonald: Yes. In addition to the points that Gavin Brown specified, in the context of our consideration of tourism we may want to consider the identification of the expansion of Glasgow airport and the expansion of Edinburgh airport as national developments.

The Convener: Absolutely. We will produce a list of suggested topics and circulate that in the usual way. If colleagues have other ideas, they should submit them. We will schedule a session

on the national planning framework in the autumn.
Do members agree to that approach?

Members *indicated agreement.*

Research

09:36

The Convener: Item 3 is consideration of a paper that SPICe has prepared for us on the overall economic situation, especially the impact of the credit crunch on the Scottish economy. Jim Dewar from SPICe is here. Good morning, Mr Dewar. I invite you to provide us with an introductory overview of your paper before answering questions from colleagues.

Jim Dewar (Scottish Parliament Directorate of Access and Information): I will make a few brief points. The media have picked up on our conclusion that the evidence to date suggests that the impact of the credit crunch on the Scottish economy has been mixed. In my view, forecasting is a bit of a mug's game. All the resources that are available to Governments, banks and consultants failed to predict the timing or scale of the credit crunch or the rise in commodity prices that has taken place, so I will not second-guess what those organisations have done.

I offer members some updates on and slight modifications of the paper's contents. According to the latest information in the Case-Shiller home price index, which appeared yesterday, American house prices continue to fall. They are now down by 17 per cent in money terms and 21 per cent in real terms from the peak in the summer of 2006. In the paper, we say that house building in Scotland has not been particularly responsive to the rise in house prices. It may not be responsive when house prices rise, but it can be quite responsive when they fall—there is some evidence of decline in house building. I am happy to answer questions from members.

The Convener: Would you like to comment on the proposition that in recent years the whole United Kingdom economy has been fuelled by house price inflation, that any change in the economy as a whole will have an impact on Scotland, and that it is a matter of judging what the impact will be?

Jim Dewar: It is undoubtedly the case that the UK economy has been buoyant, but the phenomenon has been fairly global, rather than confined to the UK. However, house price inflation has been a feature more of the UK and America—the Anglo-Saxon economies—than of European economies. It is not the sole factor, but there is no doubt that, because of the wealth effect that people have felt from it, they have been happy to incur debts and to buy big cars and replacement furniture. There is evidence that they are now tightening their belts. However, every time we

think that that is happening, lo and behold, retail sales hold up.

The Convener: That is interesting.

Marilyn Livingstone (Kirkcaldy) (Lab): I have a specific question about the construction industry. As you know, I chair the cross-party group in the Parliament on construction. Any reduction in house building will have an impact on the number of people who are employed in the industry. How will that affect the construction industry as a whole, given that major projects such as the Commonwealth games and the new Forth crossing will—I hope—come on stream? We have a commitment to social housing, but there are skills shortages.

Jim Dewar: A problem for the construction industry is that it can be cyclical. Projects are cancelled when there is the prospect of a downturn in the economy. However, major public sector infrastructure projects are coming along in Scotland, which I hope means that fair demand for construction workers will be maintained.

There are many reports of workers in the house building sector being laid off. Not long ago, people were expressing concern about where we would find the people who would carry out the work that is needed for the Olympic games, so some pressure should be relieved in that regard. When the cost of future projects has been considered, it is interesting that assumptions about inflation in the construction industry have been quite high. Inflation of the order of 6 per cent has been assumed, although general price inflation is about 2 or 3 per cent. There might also be a reduction in inflationary pressure.

Marilyn Livingstone: I am concerned about training and modern apprenticeships, particularly in areas in which there are skills shortages. If people are laying off staff, will there be an impact on the number of trainees, or will numbers remain stable?

Jim Dewar: I do not know enough about the sector to be able to give an informed answer, but I think that there is bound to be some effect. Even if people are not laid off in the middle of a training course, the number of new places that are offered will decline.

Dave Thompson (Highlands and Islands) (SNP): Many house builders, certainly in the Highlands, have tended to concentrate on the top end of the market and build large houses, because they can make a greater profit if they do that. Is there any indication that the credit crunch will have a greater effect on such builders and encourage them to build houses in the middle or bottom of the range?

Jim Dewar: I have not seen statistics on such matters, but my impression from anecdotal evidence is that many of the big houses that are built in rural areas are built by small-scale builders, rather than the likes of Barratt. Such builders tend to keep going—if perhaps not quite as quickly. If the owner of a small enterprise is to make a living, he must carry on, even though he might not make as great a profit as he used to make. I do not think that small builders will scale back their operations to the extent to which some of the larger firms will.

Dave Thompson: Many house builders in the north build four-bedroom houses that sell for £250,000 or £300,000. What will be the impact on such builders?

Jim Dewar: There is bound to be an impact, but I would have thought that it is still quite profitable to build such houses, because the construction cost is still substantially less than the selling price. That is what makes it profitable to get planning permission to build on a site. The price of the land can come down a long way before people will say, "It's not worth building a house yet."

The Convener: I propose that we take evidence on the matter in the autumn. In fairness to Jim Dewar, I should say that we have asked him about a number of issues on which he cannot give an immediate answer. It might be useful to hear from a panel of witnesses from the house building sector and other interested parties, such as economic bodies.

David Whitton (Strathkelvin and Bearsden) (Lab): The briefing paper was excellent and well put together. I know that Jim Dewar thinks that forecasting is a mug's game, but will he elaborate on the buy-to-let market? You say in the paper that it is difficult to forecast what will happen, but you describe factors that will

"combine to make buy to let investors more vulnerable to falls in house prices."

In Glasgow, there has been a lot of speculation in the buy-to-let market. How might large-scale developments be affected, such as Glasgow harbour, where there was much speculation?

09:45

Jim Dewar: Judging by what has happened in some cities in England, particularly Leeds, where a surplus of inner-city flats seems to have been built on spec with the buy-to-let market in mind, I suspect that Glasgow and Edinburgh are not totally immune to that. On the other hand, a report in *The Times* today said that quite a lot of buy-to-let owners are quite comfortable and are not being forced to sell. Rents are going up and they can afford to hang on to their properties. There is no suggestion that there is a huge amount of distress

selling. The situation is not like it was in the early 1990s.

David Whitton: So, based on the information that you have just now, you do not anticipate that the buy-to-let market in Scotland will be affected in quite the same way as the market south of the border.

Jim Dewar: I confess that I am not enough of an expert to say authoritatively what will happen, but the pattern seems to be that Scotland is not as vulnerable as the rest of the UK. To the extent that things change in Scotland, they tend to lag behind, so people can anticipate what will happen.

The Convener: David Whitton will be asking next whether Germany is going to beat Turkey tonight.

Gavin Brown: I thought that the paper was useful and helpful. Opinions vary, but most people seem to think that the effects of the credit crunch could last for a while—some think that it could be 12 to 18 months—and positions will change over time. Some of the information that is captured in the SPICe paper will be captured in SPICe's quarterly economic indicators report. Is there a way of incorporating some of the other movements that happen into that paper or into something different? It would be good for the committee to get updates as they happen.

Jim Dewar: As we did the paper, it occurred to me that it contains things that we could usefully include in our economic indicators quarterly briefing, and we will do that.

The Convener: That was a good suggestion.

Lewis Macdonald: I have a couple of queries on the house price and rental income figures that you have uncovered. Price growth in Aberdeen and the north-east is running at double that in the rest of Scotland. I assume that you take that to be a reflection of the different economic sectors in the area.

Jim Dewar: Yes.

Lewis Macdonald: I was struck particularly by the fact that Perthshire and Stirling, an elderly, prosperous and growing part of the economy, has a very low rate of house price growth compared with that of the north-east. Is there any particular explanation for that?

Jim Dewar: There is a ripple effect in house price rises. It tends to start in the south-east of England and spread out to the rest of the country. Edinburgh has a similar role in Scotland. If you were to look at the figures from a few years ago, they would show that Edinburgh had the fastest rate of growth, followed by Fife, Stirling and Perth, and then by the further parts of Scotland.

Maybe too much should not be read into one year's figures for annual change.

Lewis Macdonald: Sure. The other thing that struck me was the sharp increase in rental income from properties in Aberdeen compared with Edinburgh and Glasgow. Has any feature of that caught your attention?

Jim Dewar: The fact that oil is \$130 a barrel must be having an impact.

Lewis Macdonald: That is a fair comment.

Christopher Harvie (Mid Scotland and Fife) (SNP): I had a conversation with Bill Keegan of *The Observer* in October 2006, during which he said of economic peril, "You ain't seen nothin' yet." He was expecting a major bankruptcy in the banking sector, which we have now seen with Northern Rock. Going by what we see in today's papers, I think that there might be more to come. Does the closure of such a large sector, which provided huge profits for years, not suggest that, over the next year or two, public works projects could be funded more economically because contractors will not have the comparison of the gains from the housing sector? Could we not do some public works with cheaper financing than has been the case up to now?

Jim Dewar: I would not disagree with that.

The Convener: As I said, we will aim to have a hearing on the issue in the autumn, given the interest that the committee has in it. Jim Dewar might reflect on some of the suggestions that colleagues such as Gavin Brown have made this morning about other areas of research. We will try to pull that together for the first or second week back in the autumn and see where we are then. I thank Jim Dewar for his helpful paper.

Business in the Parliament

09:50

The Convener: The next item is the business in the Parliament conference, on which Stephen Imrie has given us a paper. We seek the committee's thoughts on next year's event and any other points that colleagues wish to make.

Gavin Brown: The feedback that I received was all excellent. The conference was popular, particularly the dinner on Thursday evening, which people really appreciated.

Two themes are suggested in the paper: innovation, and skills and training. Both are excellent themes and it is difficult to say whether one is better than the other—I would be happy with either. My only small comment is that although a couple of hundred people were at the conference, the number of survey returns is only 20. Is there a way of encouraging more than 20 returns so that we get broader feedback? Other than that, I am happy with the paper.

Stephen Imrie (Clerk): In previous years, we had a much higher return. The lower return this year is largely down to the fact that we tried to do the survey returns online. We gave people a website address and a form that they could fill in online. Unfortunately, because of the volume of work that we had to deal with and the competing demands on our information technology department, the form was not ready until about two weeks after the event. That was probably one of the main reasons why delegates did not respond.

In previous years, we have given out a form on the day and there has always been a higher return. We are considering alternatives. Members might know that delegates can make travel claims and have their expenses paid. We might look at whether we can tie in feedback with payment of claims to encourage a greater return and we will generally encourage delegates to give us feedback. If delegates can see, in a paper such as the one before the committee, that their ideas are listened to by the committee and by ministers and that the format gets changed and themes get picked up as a result, they will be encouraged to give their views.

The Convener: That is a courageous idea, is it not?

Brian Adam (Aberdeen North) (SNP): We can ensure that all the external parties receive a copy of the paper and our conclusions so that they can see that we have followed through on the feedback.

Even though the return rate was modest, people who are motivated to fill in such surveys are usually people who are either disappointed or excited. It does not look as if too many people were disappointed and it is clear that a number of folk were excited. Despite the occasional bit of doom and gloom, it is clear that the business community is interested in being involved in the Parliament and wants to contribute.

The Convener: Good. Does anyone else want to comment?

David Whitton: As Brian Adam said, the feedback, albeit from only 20 people, shows that people who took time to fill in the form thought that it was a good event. It can only be built on.

I was struck by the comments about hearing too much from the politicians who spoke and not enough from businesspeople. We should perhaps take that on board. I was also struck by the observation that the chap made about arriving for dinner and not being met by a host. We can do something about that. MSPs can be delegated to tables and so on and there can be meeting points or whatever.

The event went very well. The session that I chaired was lively and there was a lot of comment one way or another, which was all to do with kaizen training, new innovations and so on. One speaker, in particular, was clearly trying to sell a book and if he mentioned it once, he mentioned it 12 times, but, hey, that is how you get on in business.

There are many lessons to be learned from the conference. Moreover, the fact that we are hooking up with the Scottish Parliament and Business Exchange might help to develop things.

We are considering the theme of energy for our next inquiry. That may naturally lead into the conference and tie in with a couple of other things. There is no doubt that the issue of where our energy will come from in the next few years will be of great interest to everyone. In that context, our round-table discussions have been very good. I am not saying that energy will be the only theme, but it should be one of the key themes in one of the break-out sessions.

The Convener: I agree with what has been said, with the possible exception of what was said about how long politicians talk for. I seem to remember that my contribution ended bang on time.

I take it that the committee endorses the proposals for 2009. Following the points that Gavin Brown and David Whitton made, we will consider feeding the theme into our inquiries and work with the Minister for Enterprise, Energy and Tourism on putting things together for next year.

Christopher Harvie: I would like to suggest a little innovation that could be made between the conferences. There is something to be said for getting around a table in the interval people who we think have made significantly original and challenging contributions and chatting to them informally about agendas, for example. People who are quite low down the Scottish business feeding chain often have ideas that they can signal through such opportunities. We can pick them up and talk to them.

The Convener: That is a fair point, which we will follow up.

Scottish Enterprise

09:57

The Convener: Item 5 is further supplementary written evidence from Scottish Enterprise. Members will note the hint in paragraph 2 of the paper that we have the budget to deal with in the autumn and that such matters should logically and sensibly be followed up then. Are members content to consider Scottish Enterprise's issues as that budget comes through?

Members *indicated agreement.*

Council of Economic Advisers

09:57

The Convener: Item 6 is to consider whether to invite representatives of the Council of Economic Advisers to give evidence in the autumn. Colleagues will recall that Sir George Mathewson gave evidence to the committee late last year. It has been proposed that we see him again. I think that the committee took the view that we should have the council in once a year for a discussion. Obviously, it is up to Sir George Mathewson and his colleagues to decide who should attend. Do members agree that we should invite representatives of the Council of Economic Advisers to give evidence in the autumn?

Members *indicated agreement.*

The Convener: Items 7, 8 and 9 will be taken in private.

09:57

Meeting continued in private until 12:31.

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