ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 25 March 2009

Session 3

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CONTENTS

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ECONOMY, ENERGY AND TOURISM COMMITTEE
11th Meeting 2009, Session 3

CONVENER

*Iain Smith (North East Fife) (LD)

DEPUTY CONVENER

*Rob Gibson (Highlands and Islands) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)
*Gavin Brown (Lothians) (Con)
*Christopher Harvie (Mid Scotland and Fife) (SNP)
Marilyn Livingstone (Kirkcaldy) (Lab)
*Lewis Macdonald (Aberdeen Central) (Lab)
*Stuart McMillan (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)
Alex Johnstone (North East Scotland) (Con)
Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
*David Whitton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING ALSO ATTENDED:

Nigel Don (North East Scotland) (SNP)

THE FOLLOWING GAVE EVIDENCE:

Andrew King (Energy4All Ltd)
Chris Cook (Nordic Enterprise Trust)
Charles Yates (Grant Thornton)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

LOCATION

Committee Room 6

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 25 March 2009

[THE CONVENER *opened the meeting in private at 09:41*]

09:53

Meeting suspended until 10:00 and continued in public thereafter.

Energy Inquiry

The Convener (Iain Smith): The eleventh meeting in 2009 of the Economy, Energy and Tourism Committee is in public session. We continue to take oral evidence as part of our energy inquiry. Today's panel will talk about financing energy projects. We have covered the pre-commercialisation stages of projects, so today we will consider the financing of mature technologies on a commercial or community scale.

We had hoped that representatives from financial institutions would join the panel and we invited a number of banks and banking organisations to take part. However, none was able to send a witness. We might take up outstanding issues by asking the banks for written evidence.

We are approaching the end of our energy inquiry, so we are considering what recommendations about energy policy we need to make to the Scottish Government and other organisations. I ask witnesses to focus on issues that you think that the committee should be incorporating into its recommendations. I invite you to introduce yourselves.

Andrew King (Energy4All Ltd): I am the chairman of Energy4All, which is a social enterprise. We formed six years ago and our sole aim is the encouragement and facilitation of community ownership of renewables in the United Kingdom. We formed because we were in despair at the lack of progress in the UK on community ownership. We set out not to depend on the public purse, which is pretty unusual in this day and age, particularly in the renewables sector.

To date, our success is that we have formed seven co-operatives in the UK and supported various community projects. We have raised £13 million in equity, which we have supplemented with bank borrowing. We have built a reputation for reliability in financial matters in relation to community projects.

If there is one subject that I want to discuss, it is the extraordinary paucity of successful community renewables projects and the obstacles to engagement with renewables that are placed in the way of communities, in contrast with the situation in most northern European countries.

Chris Cook (Nordic Enterprise Trust): The Nordic Enterprise Trust is also a social enterprise. It promotes economic and cultural links between Scotland, and Norway and the Baltic states. My background is in the City, where I was a director of the International Petroleum Exchange, and I work with one or two Governments, mainly in the middle east. Last year, I gave evidence to the Treasury Committee on oil market regulation, which is a particular interest of mine.

I am here to talk about potential new financing mechanisms, which have relevance to the committee's other work on the economy—they are probably more relevant to affordable housing than to your energy inquiry, but I am here today to answer questions on energy.

Charles Yates (Grant Thornton): I thank the committee for giving me the opportunity to talk to you. I am an associate director with Grant Thornton, which is a major accounting firm. The team of which I am part provides much advice to developers of renewables projects, particularly wind projects but also projects that use anaerobic digestion, combined heat and power and a variety of other technologies.

We witness the benefits that renewables can provide, but we are also aware of obstacles. Finance is a major obstacle. The big developers have a variety of options and can look after themselves to a significant extent, but some community projects and independent developers, which have an important role to play, are finding it much harder to raise the debt finance that they require. I have a specific idea, which I will be happy to share with the committee, if it is appropriate to do so.

The Convener: I thank the panel for their introductory remarks. I will get the ball rolling with a question on the current economic situation, particularly the availability of lending for energy projects—both conventional power plants and smaller renewable energy projects. How is the present situation affecting the ability of projects that are of interest to the panel to attract finance?

Charles Yates: Obviously, things are changing day by day and measures are being taken to try to address the situation. We are in tough times, which will continue for quite a while—unfortunately, it will be years, not months.

I turn to the impact on renewables. The first issue is that the banks are reluctant to lend to any project right now. Eighteen to 24 months ago, they were lending too much and to the wrong kind of project, but the pendulum has now swung in the opposite direction and it is hard even for good projects to get bank lending. Even if a project has long-life assets such as wind turbines, which will generate income for a long period of time, banks want to lend only in the short term, for a period of seven years or so.

The second issue is that bank margins have increased considerably from about 1 per cent above LIBOR—the London interbank offered rate—to about 3 per cent. There has also been a decrease in the quantum of lending. At the moment, probably no more than a dozen banks are actively lending to renewables projects, and the number of banks lending to smaller, community-based projects is far smaller.

Where banks are lending, their credit committees, which may have taken a back seat two years ago, are now very much at the forefront of lending decisions. They are actively looking for risks, concerns and reasons not to do deals. The process of persuading a bank to lend is now much longer and harder. Obviously, that is either holding back and delaying projects or preventing them from getting to the finish line.

Chris Cook: I am not particularly well qualified to speak other than at the macro level. The financial markets have a terminal problem of solvency. The problem is not a shortage of credit but a shortage of the creditworthy. As my colleague illustrated, banks do not see anything out there that is particularly creditworthy. There is a shortage of capital, and the situation is getting worse, not better. We need systemic change.

Andrew King: We have a slightly different take on this. Given that we do community projects, we tend to have a much higher equity content than is the case for most projects. A developer may look for 80 per cent funding and 20 per cent equity, whereas we tend to go for 50 or 60 per cent equity. Our main aim is to get people involved and engaged in renewables. From the equity perspective, we are a hot property out there in the market.

From inquiries that I made prior to coming to the committee, my general impression is that there is a flight to quality. The banks want to deal with people and projects that they know and trust. Over the past five years, we have worked with and built up a reputation with the Co-operative Bank. The bank knows that we will not present anything that is not viable. It has assured us that if we bring projects on the same basis as in the past, funding will be available. In the current circumstances, I would not like to be someone who is starting out in the market or a new small independent.

One unexpected consequence of the current recession is that the amount that we pay our members, which people saw as a reasonable return, has suddenly turned into an extremely attractive return. We pay between 6 and 10 per cent a year, on average, to our members. That was moderately attractive, given the risks involved, when people could pick up 6 per cent in a building society; it has suddenly become extremely attractive and people are ringing us to ask whether we have more community projects in which they can invest. That is an unexpected spin-off of the current situation.

The Convener: If the picture that Chris Cook and Charles Yates painted on availability of finance does not change, will it be possible to meet the ambitious targets for renewable energy in Scotland?

Charles Yates: The targets are ambitious. The market is very much policy driven. Government policy, in particular on the renewables obligations, is driving the development and growth of the market. If the incentives and grants that are available were not there, the market would have developed much more slowly and would be much smaller.

It is in the power of Government to achieve the targets, if it wants to intervene appropriately. However, time is running out quickly and the targets are ambitious. I would not give up all hope yet. I am in the unfortunate position of broadcasting doom and gloom, but the situation is not irredeemable yet.

Christopher Harvie (Mid Scotland and Fife) (SNP): In the context of your phrase “not irredeemable”, you said that you had an idea in your pocket. May we hear it?

Charles Yates: Of course. I cannot claim credit for this idea, which was developed by the Co-operative Bank, about which we have heard quite a lot, because it is probably in the forefront of lending to small community projects, which face particular issues with financing.

The Co-operative Bank suggested that it would help and encourage it a great deal if the Government guaranteed a proportion of debt finance for a particular set of renewables—and perhaps community-based—projects. Let us say that there is a two-thirds guarantee and the bank provides one third as debt without a guarantee. The fact that the bank lends one third at risk should ensure that it does all the due diligence and lends only when lending is warranted and makes sense. However, because two thirds of the debt has a Government guarantee, the capital that the bank must put aside to back up the debt is much reduced, which makes it much easier to make the loan. The quid pro quo is that the bank promises to reinvest the two thirds that is Government guaranteed in other projects. If we assume that the next project in which the bank invests also has a two-thirds Government guarantee, we can see that there could be an impressive multiplier effect.

At least in principle, the idea is fairly simple, which I hope means that it could be put into practice relatively quickly. Simplicity is the way to go; complex finance is not what we want in the current climate.

Chris Cook: I understand that Denmark's remarkable success with decentralised investment in renewable energy has been achieved via the use of a municipal guarantee—perhaps my colleagues will correct me if I am wrong.

Mr Harvie used the phrase "not irredeemable", which is exactly applicable in the context of the methodology that we have developed at the Nordic Enterprise Trust. Equity and debt have been mentioned. Our approach is to consider other ways of looking at equity. When we say that something is private, we mean that it is owned by a limited company or perhaps a genetically modified limited company such as an industrial and provident society or community interest company. We point out that there are new possibilities. For example, Glasgow City Council uses four municipal limited liability partnerships.

10:15

In that new corporate framework, there are ways of funding by issuing units that are redeemable in energy. There is a brewery in Germany that pays its dividend in beer. In this case, why not repay the complete financing not in beer but in energy? Because the operator of a wind turbine is taking something that costs them nothing—plucking £50 notes out of the air, in essence—if they issued investors with units redeemable in the flow of energy, they would probably have to sell 30 to 40 per cent of the production to finance the average wind turbine. They would have to put a percentage aside for the operating costs, but it would change the economics entirely, as you would expect.

As the former director of a futures exchange, I observe that that proposal is not unlike a futures contract. There are massive new asset classes called exchange traded funds investing in energy. That is what I propose: a fund that invests in energy with the added attraction of being redeemable in energy. It is a simple idea. It is so simple that I cannot believe that it has never been done, but it has not been done because the legal vehicle did not exist.

The Convener: I think that I understand the principle behind your proposal, but I am not clear about where the money would come from to start with. I understand that it would be redeemable in units of energy, but it would still be necessary to have the credit up front, so where would the money come from?

Chris Cook: The operator would need development finance. However, it might be possible for them to persuade a manufacturer to lease them a turbine so that they would not even need to buy it. For instance, Enercom Ltd is already willing to enter into a partnership to operate a turbine and take a piece of the production as operator.

Development finance would be necessary, as would some form of equity investor. We find that the community will do that. However, once the turbine was built, the operator could refinance it by unitisation, as I call it. That is what I have been talking about in the middle east because, interestingly, it is an Islamically sound mechanism for investment at a fundamental level.

Lewis Macdonald (Aberdeen Central) (Lab): I am interested in a couple of the points that have been made already. A couple of witnesses have said that the Co-operative Bank provides an exception to the rule of banks' unwillingness to engage. Is that a fair comment?

Charles Yates: Yes, it is a fair comment.

Lewis Macdonald: I think that Andrew King's point was that, because Energy4All had a proven track record, there was not the same reluctance on the part of banks to lend to it. Is that true of a range of different organisations or is it unusual?

Charles Yates: Most banks are reluctant to engage with community groups because such groups do not have much experience and because there is the perception—in some cases, it is the reality—that it can be a bit like herding cats. That is, it can be challenging to get community groups to adopt and implement a strategy effectively and quickly.

Would a bank rather lend £10 million to a small community group or £100 million to Scottish and Southern Energy? Banks say that they generally get more bang for their buck lending to the larger project with a beast that they know and have dealt with on many occasions previously. The Co-op Bank is a leader in other investments because it has other motivations besides seeking profit. Some of the other banks have wider aspirations, but that is particularly true of the Co-op.

Lewis Macdonald: That is helpful.

Andrew King: The question implies a balance. We try to strike a clear balance between the ethics, what we try to achieve from a community and green perspective, and Scotland's energy targets. The other side of the matter is business professionalism. If we did not demonstrate that, the rest would become irrelevant. It is only because we have built up a reputation for being able to put the two together that the Co-op Bank takes us seriously and is prepared to fund projects that we propose. The downside, of course, is that we must be very careful never to propose a project that we do not believe to be viable.

Lewis Macdonald: That is good business sense in any case.

Andrew King: Absolutely.

Lewis Macdonald: I will ask about the vulnerability of small projects. I am encouraged to hear that a funder is still prepared to provide finance for good projects. Do larger developers experience pressure to scoop up smaller developments in order to acquire good projects and creditworthiness and to raise cash for their own developments?

Andrew King: That is an interesting question. The convener's question on whether Scotland will meet its targets is connected to the issue. Denmark has been mentioned. I believe that about 100,000 Danes are members of co-operatives that own a stake in their local energy supply. In Scotland—apart from the four small co-ops that we have achieved in the Highlands, each of which has about 750 members; the Findhorn community, which we also helped to finance; and the island of Gigha, which has a small project—no Scots have a direct stake in an energy supply of a significant scale. To be frank, that is a disgrace to us all.

There is enormous potential out there, but the market structure makes it exceedingly difficult for communities to develop and fund projects. On their own, communities stand no chance. There is a lot of good will and enthusiastic people out there, but their chances of taking a project through to delivery on their own are as near as damn it nil. We can do much to help communities, but everything is stacked against them.

Lewis Macdonald: Now is a bad time to enter the market, because of the wider issues that we have discussed.

Andrew King: This is an appalling time to establish an individual community project, unless someone is holding the community's hand, helping it and removing some of the obstacles. I will enlarge on the obstacles if the committee likes.

The Convener: Please do.

Andrew King: Three fundamental issues lie behind the failure of community renewables to grow in Scotland. The first is that community ownership receives zero credit in planning and grid considerations. For instance, our arrangement in Scotland is with the developer Falck Renewables. We saw that nothing was happening in Scotland, so we made a deal with that developer to allow communities to take a stake in its projects. It receives no direct benefit for that. It has gone out of its way, experienced a lot of hassle and put a lot of money, effort and time into helping us to get the projects off the ground and up and running in Scotland. The developer gains only a long-term public relations benefit for that. That situation does not help.

A community group that submits a planning application is not preferred to a big developer that submits a planning application for a project next door, so that is another aspect that rules out community projects.

Under the grid system, after a grid application is made, National Grid makes an offer and says how much a connection will cost and when it can be obtained. If the cost is more than £100,000, 25 per cent of the money is expected to be put down. Where will communities get that money from? If the cost is under £100,000, the whole lot must be put down. Communities do not have such money, so they are ruled out. Communities have no advantage in planning and are ruled out of the grid.

The second major problem is the almost total absence of risk capital. No risk capital fund exists, apart from the very small amounts of risk capital that people such as us can make available. We are funded totally by the community groups with which we work, so it is obvious that we do not have huge funds. The absence of risk capital to take projects through to planning is a huge problem and is probably the biggest single issue.

The third problem applies specifically to Scotland. A bit of a culture of grant dependency is stifling initiative, particularly in northern areas. Of our seven co-ops, all three that are in England—we hope that two more will come along in the next year or so—own turbines. Local people own those assets. In Scotland, the only people who own turbines that were not publicly supported are in the Findhorn community, which we helped.

In Denmark, 100,000 people are members of co-ops and have put their own money in but, for some reason, in Scotland, particularly in the Highlands and Islands, there is a tendency to regard anything other than pure community corporate ownership by the community body as being in some way supping with the devil. That strikes us as very strange, because there are opportunities out there and there are projects of a significant scale that communities could do, but they cannot be funded without equity. A limited amount of equity can be raised from the public purse, through grants and so on. The result is that projects are scaled down, aspirations are scaled down and the whole thing is made insignificant. I have thrown quite a lot at you there.

Lewis Macdonald: That is very interesting. Colleagues may want to come back to some of those points, because it sounds as if there are opportunities that ought to be being taken.

I will ask, with regard to the commercial end of the marketplace, the same question about the unwillingness or inability of developers to bring forward projects. For example, are specialist renewables developers—on a larger scale than a typical community development—being acquired and put out of the marketplace because the large utilities need access to capital and that is the easiest way to do it?

Charles Yates: There is certainly a trend for consolidation in the marketplace. These projects go through a cycle. A major initial challenge to getting them up and running is getting planning permission. An independent entrepreneur will often be more effective at gaining planning permission than some of the big utilities. At that stage, the small independent is relatively well positioned.

Once the small independent has planning permission and has to put down deposits for its turbines, put down money for its grid connection and start to pay for the turbines, it is up against the challenges of raising finance. At that point, the balance of advantage switches to big utilities that have deeper pockets and better relationships with the banks.

In the operating and running phase, it is about managing the energy price risk and doing the operations effectively—a big utility again has a big advantage at that stage. What has tended to happen is that independents have got projects off the ground and got them started but have brought in bigger utilities as the project has progressed—perhaps when they have needed substantial sums of money for deposits on turbines and for the grid connections or, if they have had slightly deeper pockets, when they have got the turbines constructed, at which point, obviously, the project risk goes down quite substantially. There is a general tendency for consolidation in the industry. Independents are still developing new projects, but once those mature there tends to be consolidation.

Lewis Macdonald: We have heard from Andrew King how difficult it is for community-scale projects and how that inhibits what would be good-quality local distribution projects. Is the squeezing out of the small independents at the production stage necessarily a bad thing? Does it limit innovation, or is it simply applying capital where it is needed most?

Charles Yates: I think that, broadly, it is. A number of the small independents go in with the game plan that they will take the project so far and they know that, if they are successful in doing that, because they have added value they will get a nice little profit out of it if they hand it over to one of the big boys to take it all the way. They are quite happy, because they make a profit and they often manage to get the projects through planning in the early stages when one of the big utilities either could not do it or could not be bothered to do it, because they look at larger projects.

Lewis Macdonald: The crucial question, in respect of energy output, is whether that small independent, having sold the project that it started up, is still able, in the current climate, to initiate another project and take the frontier forward.

10:30

Charles Yates: I think that there are still opportunities to do that. A number of independents take the profits that they have made on the initial deals and reinvest them so that the second time round they can do bigger deals because they have more capital behind them. However, there are some who decide that, because they have made a nice little pot of money from a particular project, they will go and sit in the sun somewhere and enjoy the fruits of their labour. It is more about what motivates and drives the individuals than the economic and financial landscape.

I guess that it is probably a lot harder for a brand new independent who wants to get into the market for the first time. A number of years ago, people did not worry too much about whether independents had track records because no one did. However, now even independents are asked by the councils, National Grid and the turbine suppliers, “Have you done this before?” because there are a number of people who have.

Rob Gibson (Highlands and Islands) (SNP): I will come back to the Highlands and Islands situation for a minute. Andrew King talked about grant dependency. There are two situations that give rise to grant dependency. One is historical: the lack of capital among people because of the land ownership system. Linked to that is some communities’ recent experiences of buying their land. Because of the great difficulties that they have in getting the finance to get their hands on it, people are exhausted when they try to go through the same process for a community energy project. There are examples in the Highlands of communities faltering because of the difficulties that they are having. That is the background to grant dependency. For example, the community in Gigha had to sell the major asset on the island to pay off the loan that provided part of the money to buy the island in the first place. Such situations mean that communities start with a difficulty, although the community in Gigha has succeeded.

How can we get to a stage at which capital can be raised? There are four good examples at the moment.

Andrew King: We have only ever idenitified two sources from which equity can come. One is the public purse in some form. I include lottery funding in that, although you may want to regard it as a separate category. The other source is some form of share offer. We have chosen to make a social enterprise share offer through the industrial and provident societies system simply because it is the only other mechanism that we know of for raising sufficient equity.

Perhaps "grant dependency" is the wrong phrase. Our concern is that there are many innovative business models, such as shared ownership arrangements, that do not get past the thought stage. For instance, if a project had three turbines, it could get the necessary equity together by having one turbine 100 per cent in community ownership and the other two owned by a co-operative that drew capital in from other parts of Scotland by having members throughout the country. The structure of the co-op could be such that a substantial amount of the benefit from those two turbines could feed into the local community, as it should do because they are on the community's land and in its area. However, such models do not get past the thought stage because of the feeling that a project must be 100 per cent community owned. That is stifling initiative and scale and we are losing opportunities in some areas.

Rob Gibson: I must mention Maitland Mackie's WinGen project, which was ambitious but would have limited a stake to £20,000.

Andrew King: That is the limit on an IPS co-op.

Rob Gibson: Could that approach be applied in a smaller area?

Andrew King: Absolutely. As a result of Maitland Mackie's activities, about which we spoke to him at the time, we have had a series of inquiries from regional farmers groupings, which have asked us to investigate with them the possibility of undertaking such a project on a more regional basis—in Aberdeenshire, for example. I hope that something will come of that. We have just taken on some work for Scottish Enterprise on the feasibility of such a project in the Aberdeenshire area. I very much hope that this is a new model that can be developed. We will take such things on only if the landowners are seriously interested in giving the communities significant stakes in projects. We are not interested in making fat cats fatter: we want the wider community to have a share in ownership of projects.

Rob Gibson: I have to ask about the attitude of landowners and the community's ability to control the asset. Parliament has a claim in trying to create more of that potential for communities, but the approach is still in its infancy. That brings me back to the point that I made at the beginning: one of the hidden inhibitors to making choices about the kind of model that you have set out is the difficulty that people have in getting their hands on the asset—the land—in the first place.

Andrew King: It all depends on how the model is set up. There should be no problem in that respect. Landowners should take their income first in land rental for having the project on their land. Beyond that, any return to the landowner on anything that we deal with will come in return for some investment or risk that they have taken to get the project through. For example, in the largest project that we have been associated with, which was in Oxfordshire near Swindon, the landowner took all the risk and spent about £150,000 of his own cash to get it through planning. In those circumstances, I do not think it unreasonable for the landowner to take a return on his own farm's wind farm. Ownership of the project rests 100 per cent with the co-operative that owns and operates the site, but there is an agreement to pay the landowner a reasonable return for the risk he has taken, the finance he has put in and the use of his property. I see no reason why with good will and professional legal advice that cannot be achieved in similar projects. If the landowner is simply trying to make himself rich, we are not interested.

Chris Cook: On Rob Gibson's remarks, Andrew King and I spent a very interesting afternoon with Maitland Mackie, discussing how he might progress his plans for global domination. He is a wonderful man.

In our model, the asset remains in the hands of the custodian, which could be the landowner—after all, many landowners regard themselves as custodians—a company limited by guarantee or even a municipality. The key feature of our model is that it is possible to sell not ownership but production of the asset. The stakeholder—Mr Mackie, in the example that I mentioned—would not only have invested his land but would receive his rental as a share of the production over time. The point is that it is not a cash share. Investment of a lot of money could also be reflected in a production share from the completed asset.

In our very simple and straightforward model, everyone's interests are aligned. The operating member, if one exists, would also take a production share, and the community would receive an energy dividend that it could use in whatever way it chose.

The Convener: Mr Mackie also produces exceedingly good ice cream.

Stuart McMillan (West of Scotland) (SNP): I find all this very interesting, although, as a new committee member, I am on something of a steep learning curve.

Mr King has already answered some of my questions, but I have a couple of others. First, are all the projects that are under way in Scotland wind power projects?

Andrew King: To date—and very much against our wishes—all our projects have been wind-power projects for the simple reason that wind power is, at the moment, the only viable technology that can provide an efficient business model. We would love to get involved with small-scale hydro but we have been unable to make the figures stack up for the projects that have been brought to us so far. Tidal power, wave power and many solar power projects tend to be at the research and development stage—although I should say that solar power is probably less relevant up here.

Rob Gibson: That is not true.

Andrew King: Not today, perhaps.

Stuart McMillan: Are there any renewable projects that you would not consider?

Andrew King: We have said that we are happy to consider any form of renewable community technology. To date, only wind has proved to have a sound enough business case to get bank funding, for example, which we discussed previously.

Stuart McMillan: How many co-operatives or independents have you rejected because the figures do not stack up, or for any other reason?

Andrew King: It is almost impossible to say, because we get several contacts a week from communities. The vast majority of them are at the "Wouldn't it be nice if … ?" stage They are so far back down the line that we have set up a special website, because we were spending so much of our lives taking them through the initial stages.

We take on about a third of the reasonably developed projects that come to us, but projects often fall down because the people involved have not done their homework: they do not understand how the grid works and they have not worked through a proper business model for financing and so on. I am sure that Charles Yates would confirm that. Community groups are not well equipped to do that—they need some help to do so.

Stuart McMillan: Could you point them in the right direction to get such assistance?

Andrew King: Community Energy Scotland provides some assistance—previously in the north but, I believe, now in the whole of Scotland—but to date it has tended to operate on the very small projects and not to get involved in the big ones, although it has several projects coming through at the moment, which I hope will do okay. That is where we run up against the problem of how much equity can be put into a project. You tend to end up with one-turbine projects, when a three or four-turbine project would be perfectly viable, could increase the benefit to the community and could contribute significantly to meeting Scotland's energy targets.

Stuart McMillan: Apart from the website, what other communication methods do you use to promote your activities? How do communities know to contact you?

Andrew King: You must understand that we started from nothing—we started from the Baywind Energy Co-operative in Cumbria and are entirely self-financed, bar a little bit of help from the co-operative movement. Co-operative Development Scotland has recently also become interested in our work, which is excellent, but apart from that we are entirely self-funded. Even now, there are only about a dozen of us. We are fortunate that, because of what we are doing, we are attracting some high-powered people to come and work for us—more or less for nothing, which is very nice—because they think that what we are doing is worth while, but we have very limited resources. We hope to promote what we do by speaking at events such as the recent Scottish Renewables conference, by coming to the Scottish Parliament and through our co-operatives—of which there are now four—because most people in the Highlands will probably have heard about one or other of our recent co-op launches.

Ms Wendy Alexander (Paisley North) (Lab): I will shift tack slightly. I will ask questions—primarily of Charles Yates—about the large project investment climate, because we hope to publish a report in the summer that is congruent with what is likely to be the investment climate for the next two or three years. Obviously, the world has been moving very fast in the past six months. The difficulties that were outlined to us in November were about capital drying up and the cost of capital. There has obviously been a reduction in the cost of capital since we visited Longannet in November, whose representatives said that they were desperately worried about the issue.

10:45

I would like to explore what is happening in the financial community and what the Government's responsibility might be. I will throw in another two points. First, the committee has been given evidence in confidence that, historically, major projects at the development and construction phases would have been syndicated but, because of the lack of trust between banks, there have been moves to set up club deals. That means that, at the high-risk development phase, the fees go up significantly. Will that be an impediment to what we might call the longish pipeline of onshore wind projects that are being developed in Scotland?

Secondly, how do we interpret the decision by Shell to withdraw not just from project development but, in the short term, from investing in the new technologies such as wind, solar and hydrogen?

The committee's inquiry is drawing to a conclusion, so any reflections on those issues would be helpful. In that light, is there a specific role for Government in the sector? Clearly, all sectors are pleading special cases with Alistair Darling. Unless a powerful case is made, the Government's response will, as usual, be to argue that improving the general investment climate will benefit one and all. It would be helpful to the committee to be sighted on specific issues related to financing of energy projects that are required to meet our climate change targets. Are there issues on the large-scale project investment climate that should be on the agenda of the Governments north and south of the border?

Charles Yates: That is a big agenda, but I will try to respond.

The Convener: That was one of Wendy Alexander's shorter questions.

Charles Yates: I will try to say which bits I am answering as I go through but, if I miss something, please pick me up on it.

Finance for larger projects is, as I said, not such a problem as finance for small projects—although that does not mean that it is not a problem. Even the bigger companies are, in general, tending to go slow. As Wendy Alexander said, Shell has, in effect, said that it will not invest in renewables in the UK. I will come back to that in a minute. She picked up on some of the causes of that, such as the increasing fees and the fact that the banks do not trust one another and will not syndicate, so only club deals are available. That means that a bank will not lend £300 million and then get other banks to provide it with part of that £300 million. Instead, the bank will lend only £50 million and the person will have to find five other banks that will lend £50 million. That is another example of the situation being like herding cats at the moment. The banks do not trust one another. One bank will say, "Can we have the project a bit whiter?" and another will say, "Can we have it a bit blacker?" What do we do in that situation? That adds to the complexity, cost and time. That is a challenge. On what can be done about it, we might simplistically ask why, if the Government owns all the banks, it cannot just tell them to lend. For a variety of reasons, that does not seem to be happening.

Ms Alexander: Could more go to energy projects?

Charles Yates: The situation is difficult. The issues will work themselves through, but it will take a while. The banks are still worried and feel that they will take more hits to their balance sheets. They need to rebuild their balance sheets before they become confident and start lending naturally again, or as they have done in the past.

The fall in the interest base rate has certainly helped although, looking back over 12 to 18 months, the fall in the base rate has probably been more or less cancelled out by the increase in margins. Over that period, things have not got worse, but they have not got better, either. Base rates cannot go much lower. Margins will come down again when the banks get back to normal, but my crystal ball is a bit hazy on the timing of that.

On Shell's withdrawal, my understanding is that it has said that it wants to be in renewables, but in North America, not in the UK. That shows that, particularly for the big boys, there is a global market. It is interesting that some Arab investors came in to take over from Shell in the London array, which is a huge project. Together with DONG Energy, they are investing billions. Scotland and the UK have to compete in the global marketplace.

The market is very much policy driven. It would be much smaller and would not be moving ahead so quickly without the various Government incentives, such as the renewables obligation certificates, grants and money to help the supply chain.

If you want the Shells of the world to focus on here, rather than on North America, you have to compare and contrast the package of incentives, tax breaks and grants in North America and the package here. That is important and interesting work, but it is difficult, because the rules of the game keep changing. Everybody wants more renewables investment. Obama has come in and said that renewables are a real focus for the United States, which is a huge market. Planning is not as big an impediment there as it is in the UK. The US is not a small crowded island—we are.

What can be done on the policy front? There has been a long-running debate about the design of the incentives. The renewables obligation is the major incentive that is driving matters. That is evolving, and we now have banding, which we did not have previously. However, perhaps for good reasons, we still do not know what the value of it will be next year, the year after, or the year after that. People are investing for 20 to 25 years and want to know what their returns will be. They already face uncertainty, because they do not know what energy prices will be. The prospects for energy prices are probably not as positive now as they were 12 months ago.

Many European countries have feed-in tariffs, whereby the Government commits to companies getting a certain price, fixed over a reasonably long period, for their electricity. I apologise, because I am not sure what the policy is here, but the Government in London is looking at feed-in tariffs for small combined heat and power projects. CHP, with or without renewables, is another area in which the technology is sufficiently developed that banks are comfortable with it, which is important. If you were drawing up an incentives system from scratch today, I would advise you to go with feed-in tariffs. However, we are where we are. Do we want to scrap completely what we have and move to feed-in tariffs? That is a tough call.

It is important to view the incentives package against the impediments, which we have discussed, and to look at what the Americans, Danes and Spanish are doing. The big companies are going to develop all the big projects, particularly off-shore; only very big utilities will be able to develop massive projects with very big risks. You have to benchmark yourself against the best elsewhere in the world.

Ms Alexander: Last week, we dwelt extensively on planning issues. One of the problems with the incentives structure in the planning system is that the role of elected councillors is to protect their communities. If they do not see benefit coming directly to the community from a project, they are structurally biased against giving such projects the go-ahead. We are not going to change that overnight, but it seems to me that we should bring to bear the comparative perspective and understand that if—because of our planning system—there are to be five-year delays in projects, they will now go to Denmark and the US, which would not have been true a year ago. We must also understand that if your biggest power utility is owned by a Spanish company, projects will go to Spain.

We have not been able to find a study of comparative costs that takes account of delays in developing on-shore wind farms, for example. If you come across comparative studies that big consultancy firms are doing to help their clients to decide on optimal locations, it would be helpful if you could tell the committee about them. We are trying not to have a Scotland-only perspective on the financing and speeding up of projects.

Charles Yates: A number of international comparison studies have considered the revenue side of the equation, for example by asking how much revenue can be expected from building a megawatt of wind power in the States, Spain, Denmark, the UK and so on. I am not aware that there has been a study to consider the cost side of the equation, and which has factored in the costs of delays in different countries. That would be interesting work, but it would probably be quite challenging to do.

Ms Alexander: It would be useful to have the data on the revenue side, and if work on cost comes across your desk we would love to see it.

Andrew King: The decline in sterling is having a substantial impact on developers, because the cost of turbines has gone up 20 or 25 per cent in six to nine months. That impacts on projects' profitability, which means that the UK is suddenly less attractive than other countries, as Charles Yates said. When that is added to planning delays and other issues, the UK does not look like the best place to invest.

On a more parochial point, if the Government wants to get community projects moving, it should make funds available. I am not asking for a grant—we would repay the money, which we are perfectly capable of doing when we get projects going. Money should be made available to us that we can put into the risk side of the business. If the Government can do that, we will deliver for it.

Chris Cook: This has not been hugely remarked on. I understand that because private finance initiative credit is not available, the Treasury in London is about to lend directly—it might have begun doing so—perhaps by setting up a wholly owned subsidiary or something similar.

The Convener: It is called the Royal Bank of Scotland.

Chris Cook: There you go. Ultimately, that is direct investment by the Treasury in development credit which, when a project is complete, can be used again to finance the stream of proposed production, as we heard. The approach seems to be a no-brainer, so perhaps there will be more such initiatives.

Rob Gibson: Public sector policy in Scotland has an interest in developing not just wind projects but our major potential in marine energy. That opens up many issues, such as planning problems, which we have discussed.

Chris Cook gave examples of local schemes and big schemes in his submission. The Government must attempt to meet its targets by having a policy that encourages both kinds of development. It would be useful to hear what the witnesses think about the enhanced renewables obligation certificates for marine energy, which are a big help to us in Scotland. In the current circumstances, what can the Scottish Government do, given the limited funds that are available to it from the block grant, which will be more limited in the near future?

Charles Yates: The biggest single issue in that context is that marine technologies are not well developed. We all know what a wind turbine looks like. A dozen manufacturers can produce wind turbines, which are all pretty much the same and have been operating for 20 or 30 years. That is not the case with marine technologies. There are many different technologies, some of which are being scaled up to commercial operation. However, relatively few technologies are being scaled up in that way and, by and large, experience of commercial operations can be counted in months rather than years.

The real challenge is to get technologies that are tried and tested on a commercial scale, and which are operating profitably and for a long period. The public sector should put money into developing those technologies and the skills to build, supply and service them here. The Danes took an early lead on wind turbine manufacture, which has served them very well. Scotland could do the same with marine energy. It has the marine energy resources to form a base, and some of the skills and supply chain for the oil industry could be used effectively. That is where you would get the biggest bang for your buck.

11:00

Chris Cook: I am interested in the Scottish-Nordic dimension and I am part of a panel at the all energy conference in Aberdeen that will look at the Scottish-Nordic dimension of the grid. Rob Hastings, who is now at the Crown Estate and used to work for Shell, has a vision of a high voltage direct current supergrid that is entirely practicable. The panel will look at how we can come up with the infrastructure and finance for such a grid. The proposal is viable. We need to look at issues holistically and to enable connections. We have seen what has happened with the Beauly to Denny link. We should consider putting the infrastructure around the coast, rather than across the country.

Rob Gibson: People have different views on whether it is possible to do that in time. In its policy, the Government must look at the availability of overland transmission, as well as the second phase, which is related to issues such as the fact that, under the European recovery programme, more money is now available for the development of a supergrid in the North Sea. That points to the existence of a European dimension that supports your thesis. As we see it so far, it is not a case of one or the other, but I am interested to hear whether others think that it is.

Charles Yates: I do not know anything about the economics of the proposal, which would require substantial investment. However, creating a larger grid is a sensible idea in principle. If the wind was not blowing or was at a reduced level in Scotland, power could be wheeled from where the wind was blowing to where it was needed. We could also use Scandinavian hydro, which is renewable but can be turned on and off relatively quickly and easily, to deal with the fact that wind and a number of other renewables technologies are intermittent. In addition, wind is not easy to predict. Conceptually, the proposal makes sense, but I do not know how much it would cost and what saving we would make by implementing it.

Lewis Macdonald: Wave and tidal energy—especially tidal energy—will play a role in the increased production of renewable energy in the future. However, the most critical sector to get us from 2011 to 2020, so that we can meet the policy-driven Government targets that you have described, is offshore wind. Arguably, it is the most high-risk sector because of the sheer scale of capital investment that is required to make projects happen. Are particular risks associated with that type of development in the current climate? What might be done to mitigate those risks?

Wendy Alexander mentioned Shell's position. I understand that Shell will continue to support forms of renewable energy that it sees as close to its technical competence, such as carbon capture and storage and biofuels. That is significant. BP, on the other hand, still has significant investment in offshore wind. What is the position of those big energy companies? Are they the answer when it comes to mitigating the risks associated with offshore wind, or does the public sector have a role to play in enabling projects to go ahead?

Charles Yates: There is an important role for the public sector. The private sector is feeling a bit fragile and is not keen to take risks at the moment. That is particularly true of the banks, but it is also true of an awful lot of corporates, because they have problems getting finance or because they feel it is a cruel, hard economic environment at the moment. We need to compete internationally for the available money.

In my view, the utilities are the natural parties to lead private sector investment, because they are in the business of producing electricity, they have a lot of relevant experience in some offshore and a lot of onshore developments, and they have big enough balance sheets to support such projects. They also realise that the business of burning coal and gas to produce electricity is declining and they need to move on.

The utilities will take the lead in driving projects forward at the speed that we need and want, but other investors will be needed as well. I mentioned earlier that a middle eastern fund was coming into the London array. In addition, a number of sovereign wealth infrastructure funds are interested in investing in renewables and regard offshore as providing opportunities of the size that they seek. They are not interested in investing £1 million here and £1 million there; they are looking at investing tens or hundreds of millions. Offshore renewables meet their criteria. In some cases, there are wider social motives for investing in renewables.

In general, however, other investors will get involved with the utilities because they will not feel confident enough to take the lead or feel that they have the experience or technical expertise to lead the development of projects. However, they may take a 50 per cent stake where a big utility or someone with experience and a proven track record takes the lead.

Lewis Macdonald: So a big utility-based sovereign wealth fund such as TAQA, which has bought into the North Sea oil industry, could invest in renewables in the UK. Your view is that that is possible, but it will depend on, or be facilitated by, a utility looking for such funding partners.

Charles Yates: That is right. I think that they will look for broader partnerships as well. It is interesting in that regard that the Crown Estate is providing risk capital for round 3 offshore wind development and some marine development. As we said earlier, it is helpful that, for the purposes of this debate, the Crown Estate is part of the public sector. It provides the initial risk capital and puts money into doing surveys and getting planning permission. Offshore planning is still an issue with regard to not just wind farms but where transmission lines come ashore. That is the real pinch point. Once someone has provided the initial money, got the various permits and shown that a project makes economic sense, it is relatively easy to attract a wide range of investors. However, not many are providing the initial seed investment. It is the highest risk investment, but if you get it right it should bring the best rewards.

Lewis Macdonald: And from a public sector input point of view, the Crown Estate is best placed to take the initial risk.

Charles Yates: It is doing that. Through people such as Rob Hastings it has the right skills and experience. My view is that if an instrument is doing things reasonably well, why invent another one? The instrument is not broken, so it does not need to be fixed, although it might need a bit more money.

Christopher Harvie: I will make two points—the first, to Chris Cook, is a micro point. The pool to which he refers—the notion of a utility that serves multiple things—brings to mind a very successful experiment in Germany that involves using windmills to compress air and store it within former salt mines, then releasing the air through turbines. The system is about 25 per cent more efficient than what is being considered for Easdale, which is essentially a pump storage project.

The description of that experiment in *Die Zeit* referred to Scotland as one of the places where that type of combination, using a form of air pump storage, would be effective. The journalist might have been thinking of the large limestone quarries in Fife. For example, Easdale, which I know a bit about, was quarried manually, and it could be roofed and sealed and used in that way, depending on the costs.

My second point involves a macro question. In relation to another part of the committee's agenda, we have received evidence in a submission from the Scottish Trades Union Congress that strongly supports the setting up of a Scottish investment bank to pursue such experiments into volume production and operation. What are your views on that, in terms of practicability and the possible limitations? It would require a lot of support in Scotland, but it seems to be quite a valuable option.

Chris Cook: On the subject of compressed air, I am not an engineer, but I know some very good ones. The debate is interesting. Easdale is purely illustrative—there are other examples, such as stranded wind, about which there is an interesting website in the United States. When it is not cost effective to connect to the grid, stranded wind can be used locally to produce ammonia, which is useful for fertiliser, or used as an energy vector where it cannot be used as a fuel. Those are very interesting possibilities.

With regard to financial institutions, there is now a possibility of direct connection—peer to peer—and direct investment. The institution of the future is not an intermediary bank but a pool or a framework. It will be not a middle man—which the banks will be pleased about, because they do not have the capital to be middle men—but a service provider that brings together investors and investment opportunities.

Given that, I see the possibility for a Scottish bank. I am interested in how it might be possible to create a form of Scottish equity. We are focusing on a borrowing requirement, but with a limited liability partnership framework, borrowing is not necessary. It is a big thought, but a very simple one. A form of equity can be created within an LLP framework, which does not do anything, own anything, or employ or contract with anybody. The custodian owns the asset—whatever it is—and the stakeholders organise among themselves how they will share the future outputs and resources. It is not rocket science—it is a new possibility. I see the potential of, and strongly advocate, a Scottish investment institution or framework, as it would open up all sorts of possibilities.

Christopher Harvie: I first got the idea about energy from an elderly friend of mine who is an engineer—he took it directly from Adam Smith's labour theory of value. That theory was, of course, overtaken by Marshall's notion of marginal utility, which is not a lot of good in the present circumstances. There is the notion of reverting to the concept of energy as a scarce resource, with the disadvantages of residues and things like that, and using it as Adam Smith used labour in the 19th century.

11:15

Chris Cook: That is interesting. Energy has a value in use, as does land. John Law proposed a land-backed currency 300 years ago, but he got the implementation slightly wrong, with the Mississippi bubble. I am not sure how long we have for today's meeting, but one point that I want to make is that the cheapest energy of all is energy saved. We should consider how to invest in savings. The last time that I was in Oslo, half the roads were being dug up because the Norwegians are retrofitting pipes and combined heat and power systems. Pöyry did a major piece of work on that for Friends of the Earth. For instance, it mentioned the steam that comes out of the Grangemouth plant. How many megawatts are being wasted?

I believe that it is possible to monetise what Amory Lovins calls negawatts—not megawatts, but negawatts. I love that. That is free money. We need a mechanism for investing in negawatts, perhaps by saying that there will be a heat rate and houses can repay an energy loan, so that a small part of energy saved can be repaid to the Scottish investment energy pool. That is not difficult—it is quite possible. That is the sort of idea that we need. I am only one person and I work with one other person, although I know a lot of good people worldwide. However, I want to do something with the policy ideas, and I hope that the committee does, too.

Andrew King: When we set up co-operatives, one of our main aims is to engage ordinary people. We try to set up trusts to educate people, from children right through to adults, because many adults do not understand the issues.

We strongly agree that some of the issues that have been raised are critical areas on which the Scottish Executive can usefully have an input. First, there is demand management, which Chris Cook has mentioned and which does not get enough attention. We have frequently seen the impact of installing in homes simple smart meters that measure usage from minute to minute. Suddenly, the meter shoots up and everyone says, "Who switched something on?" That completely changes people's attitude to energy consumption. Scotland's targets can be met by increasing production, but they can also be met by reducing consumption, which can be done domestically, easily and cheaply. I would think that the Scottish Parliament can do something to encourage that strongly.

The second issue is, to an extent, a personal one. I strongly endorse Charles Yates's point that, for once, we should be there at the beginning, rather than try to play catch-up. Let us get involved heavily in marine technologies now, not when everyone else is in there and all the work has been done, so that we do not think, "Oh dear, we haven't got any manufacturing, so we are going to have to import everything again." That has happened with wind power—we have lost a great opportunity on wind power and we are now paying the price through having to import every single turbine that goes up in Scotland, barring a very few little ones.

A Scottish investment bank is a great idea. In desperation, because of the lack of anything happening, we have spent the past nine months researching whether we could form a nationwide—as in Scottish—co-operative, which is tentatively called Caledonia, to raise equity from throughout Scotland to invest in the remoter areas that lack the ability to raise sufficient equity. We have various problems with that, but it is an interesting concept. The aim is to do, in a small way, what a Scottish investment bank might do. Again, the Scottish Parliament could encourage that sort of thing and support it on its way to give people who live in Edinburgh and Glasgow, who do not have wind farms on their doorsteps, the opportunity to become engaged. An awful lot of people who are highly motivated on these issues live in the central belt.

Rob Gibson: A point was made earlier about sovereign wealth funds. As we have a representative of the Nordic Enterprise Trust with us, it would be useful to know whether the Norwegian sovereign wealth funds are investing in negawatts, the grid or whatever. Does the panel have any information on that?

Chris Cook: It is our fervent hope that we can do exactly that, with political and executive support. I have had a conversation with a major insurer over there, in the context of affordable office space, strangely enough. People in the Nordic countries are very interested in the sort of secure revenue streams that we are talking about. The point has been well taken that, now that interest rates have come right down, something that is index linked at 2 to 4 per cent, say, or linked to energy, is an extremely attractive proposition compared with treasury bills or similar. There is every possibility in the world that the Norwegians will be very interested in that.

Rob Gibson: Is the Norwegian sovereign wealth fund investing in projects directly?

Chris Cook: Let us wait and see. We live in hope. I cannot do it on my own.

Rob Gibson: Are the Norwegians investing in the large-scale grid schemes that we have spoken about?

Chris Cook: The NorNed link, which directly connects Norway to the Netherlands and came about through utility investment by Statnett and the Dutch, is up and running. I advocate just the same for Statnett in providing a link directly to Scotland. The Norwegians would be up for it. The question is, are we?

Nigel Don (North East Scotland) (SNP): I wish to raise two issues. First, I go back to Andrew King's comment about community hydro schemes not stacking up. We have seen evidence that there is some hydro power to be got. The issue is not technical, so I wonder why such schemes do not stack up. What is the financial difficulty?

Andrew King: I should slightly modify my comment. The hydro schemes that have been put to us do not stack up without significant grant input. If enough grant is provided, anything can stack up. We have tried to build financially robust models, which basically means that we want something that is replicable and is not a constant drain on the public purse. We are working on the assumption that the public purse is likely to get a lot tighter over the next year or two anyway, so we should not be supporting projects that are not financially viable in their own right. That is the simple answer. There are some lovely projects around. For example, there have been a couple of weir hydro schemes down in England, but they only work thanks to significant money in the form of grants.

Nigel Don: That makes the situation straightforward, if that is the case.

My other question is about the relationship between small and large projects. We need a very large amount of renewable energy.

Andrew King: Yes.

Nigel Don: Obviously, small projects can add up to provide a very large amount of renewable energy, as long as there is a very large number of projects. Does the panel have any views about the mechanisms for the total portfolio of projects? Will our approach not work because, although we can do the small bits, the middle-sized bits are not in place?

Chris Cook: That issue is a specific interest of ours. There are two threads to it. One is investment; the other is how to link together and share risks among communities, in the context of procurement. The idea of what we call a guarantee society, whereby businesses, small hydro schemes and other small projects link together under an agreement and an LLP framework, was adopted by the Liberal Democrats as policy about three years ago, although I think that it has been quietly forgotten about.

The Convener: Do not ask me—I do not know anything about it.

Chris Cook: I have not seen it since. Anyway, the idea of a guarantee society is extremely valid—people can link together under an agreement. The point is that they do not need an institution. It means linking together lots of small projects to get big. It is that simple.

Andrew King: I can give a specific example. Next Monday night, I think, I will be up in Orkney, talking to Orkney Islands Council, which has an interest in bringing together a series of projects. They have planning permission, but they do not have grid connection yet. We will be thinking about the possibility of having a consortium to enable all the projects effectively to come together under one umbrella. That is the approach that we will take.

Our model is what I call a medium-sized model, in the sense that we are not at the same stage as Eigg, which is putting in 6kW turbines. It simply does not make sense for us to raise money for that. For one of our projects to make sense, we would certainly consider a share offer of more than £1 million, and ideally about £2 million in equity. We have proved that we can raise up to about £5 million of equity at a go. Beyond that, we are out of our current comfort zone. However, I am sure that raising such funds would be possible on a Scotland-wide basis. For a small project that is, in essence, community funded, we are taking major steps. When we get up to that sort of level, we hand over to the big boys.

Charles Yates: If we are to achieve the targets, we will need a portfolio of big projects that produce a large amount of power. Although renewables projects on smaller sites can be viable, the big utility companies are not interested in them. They focus their limited resources—managerial and other—on the bigger projects that, in their view, have more impact. The challenges for smaller projects go beyond raising finance. I am thinking of assistance with the basic business skills, including business planning, that community groups, independent developers and small and medium-sized sector companies require. The point was raised earlier in the discussion. The Government has programmes to help such projects. Perhaps some of the effort in that regard should be focused specifically on renewables projects.

Nigel Don: Do you see the portfolio of small, medium and large projects being managed at Government or some other level? I am concerned that the big projects will only happen if there is a willingness to make large-scale changes to our landscape. That is probably the biggest issue. After all, large projects can only go where they are technically feasible. The small projects will happen over time, but I do not know in what number. They will add up, but they will not account for everything. Is someone managing the whole process? Is that what you are seeing?

Charles Yates: I see a number of Government bodies helping individual projects on a piecemeal basis, but no one is looking at the overall picture. As you say, by and large, the big projects are being driven by the private sector. Piecemeal efforts are also being made to help some of the smaller projects. I see no targeting or forecasting process under which the Government is saying, "If this is what we want to do in 2020, this is what we need to do in 2015 or 2017," or, "What does that mean for onshore and offshore or for small and large projects?" It would be difficult for the Government to do that, but the fact that something is difficult is not an excuse for not trying.

Nigel Don: One of my former bosses said that the fact that something was difficult did not matter. He said that that was one reason why he paid me so much. The point is an important one: the fact that something is difficult is not a reason for not doing it.

Andrew King: Recently, the developer that we work with most often in Scotland—Falck Renewables—has started to show a significantly greater interest in slightly smaller sites, simply because of a reduction in the number of attractive large-scale onshore sites, due to them being either taken or too controversial. The company is now looking at sites of five or six turbines, which is relatively small in the scheme of things these days.

The middle area is where we ply our trade, in common with a few very small independents. The very small sites have been developed by CES by way of public funding and the very big ones are being developed by the big boys. The bit in the middle has been somewhat neglected thus far.

The Convener: How well known is it that the European Investment Bank invests in energy projects in Scotland? Are people put off from applying because of EIB bureaucracy?

Charles Yates: The EIB is not the first body that I would think of, particularly for smaller projects. It has detailed procedures and ways of doing things and a reputation for being somewhat bureaucratic. That makes the EIB a difficult partner for some smaller projects. For bigger projects, the EIB is taking on the role of a kind of lender of last resort. The EIB has done a great deal of that for PFI projects. However, it is not being as aggressive with wind projects. Right now, anyone who can provide significant amounts of finance is welcome. The EIB can provide low-cost finance, which is good when it happens, but my experience with that process is that it involves challenges.

11:30

The Convener: In the 1970s, the EIB was behind a lot of investment in the nuclear industry. Is the drive for the new generation of nuclear power stations likely to impact on the availability of finance for other energy projects, from the EIB or other sources?

Charles Yates: At board level, the EIB has targets for lending to renewables projects, which I understand are separate from the targets on nuclear. There is some comfort to be gained from the fact that the EIB has ring fenced money for renewables, which is good news. New nuclear power stations will be financed differently from small and medium-sized projects, for which the natural place to go is a bank. With really big nuclear projects, either the big corporates—the EDFs or RWEs of this world—will have them on balance sheet or they might be financed with bonds. We are talking about very large sums of money—billions of pounds, not tens or hundreds of millions—but that is a different segment of the finance market that has its own challenges and is not in direct competition with finance for small and medium-sized projects. There could be competition from the very big offshore projects, but the interaction between the two sectors is limited.

The Convener: That concludes our questions. I thank the witnesses for their answers and for the interesting ideas that they have raised. I am sure that the committee will reflect on them carefully when we draw up our final report. If you wish to draw any other issues to the committee's attention in writing after the meeting, please feel free to do so.

11:32

Meeting suspended.

11:40

On resuming—

The Convener: The next item is consideration of paper EET/S3/09/11/3, which gives a note of progress on our energy inquiry and sets out possible next steps. At the previous meeting, I said that we would have a stocktake to consider where we have got to in the inquiry and whether there are any gaps that we need to fill before we reach the conclusion of the inquiry. The committee's current work programme is set out on the last page of the paper, just to indicate the constraints that we are under. I am anxious not to allow the inquiry to drift on. We should complete it before the summer recess and get our report published in June so that it can be forwarded to the Government. We can then, I hope, debate the report in the Parliament in the autumn. That timetable leaves us scope for only one further meeting at which to take oral evidence—on 6 May—which allows us to hear from two further panels. Those are the constraints that we are operating under. I am open to suggestions from members as to whom we might invite.

Lewis Macdonald: I will start with some general comments. The paper helpfully sets out some outstanding issues. All three of the bullet points—on economic aspects, security of supply issues and wider UK policy issues—are relevant. However, I would like to add one or two more to the mix, although I realise that that might involve some choices. We have heard telling comments, particularly in the past couple of days, about obstacles to progress on renewable energy developments. We have not taken evidence on aviation, which has been the biggest single inhibitor to wind power developments. It was clear from our visit to Orkney and Caithness that navigation is the new aviation and has the potential to pose the same risks to offshore development as aviation poses to onshore development. It is therefore important that we consider those obstacles.

Another relevant issue that has arisen in conversation and in evidence is the proposed marine bill. Although the committee will not lead on that, we need to understand and input to the development process, because critical issues arise about how we ensure that renewable energy developments can be progressed in a way that is compatible with other marine interests.

It would also be interesting to hear more evidence on natural heritage obstacles to the development of renewables. The Lewis Wind Power development is an obvious example of that. The leader of Western Isles Council is not of my political persuasion, but he is articulate on the obstacles to development in that case and might have something useful to say. The good news is that we heard in the past few days that the Royal Society for the Protection of Birds appears to be moving away from its fixed position of objecting to wind power developments. If that is the case, that would be helpful.

A range of obstacles exist to renewable development. It would be good if we could capture some or all of them in further evidence. Also, the one renewable energy sector that we have not touched on at all so far is that involving energy from waste. I would be interested in hearing evidence on that, if possible.

11:45

Rob Gibson: I have to comment on the Lewis situation. There are four or five other schemes in Lewis that are available to develop the island's potential. The council's focus on the AMEC proposal, particularly at an earlier stage, diverted attention from other projects in less peat-affected areas that could have formed the basis of the new industry. If we involve council representatives, we must have people from elsewhere to provide a balance of views. I see no commentary that suggests that the council has got over its support for that one approach or that the other projects, which are related to the triggering of an interconnector, have ever been addressed.

Lewis Macdonald: For the sake of clarity, I do not suggest that we should rerun the debate on that particular application, but the way in which ministers dealt with it raised some critical issues. The most critical issue, which I raised with Scottish Natural Heritage last week—it did not give me a satisfactory reply—was that SNH recommended that ministers should not consider the social and economic consequences of development because the Natura 2000 application ruled out any such consideration. That is the issue that we should address. I agree with Rob Gibson that we should hear from SNH or the RSPB, which was the other driver of the objection, as to the basis on which the view was taken that social and economic consequences are rendered irrelevant by the Natura 2000 application. The council's views on the consequences for social and economic development in its area would be useful to hear.

The Convener: I have two quick points. It is open to us not just to take oral evidence but to request specific written evidence. We might want to write to SNH and the RSPB on those specific points. In relation to the Government's position, the minister will come to the committee on two occasions, so we will have opportunities to raise those issues, as well as some aspects of a marine bill.

You made other points about aviation and navigation, which are probably reserved. If we take evidence from the UK Government, we might highlight that we wish it to comment on those issues.

Lewis Macdonald: As in the case of the Natura 2000 application, the authority for providing consent is devolved, whatever the formal legislative reservation. For example, the Scottish ministers rejected the Kyle wind farm proposal recently because of aviation issues and we heard in the past couple of days that the Maritime and Coastguard Agency has authority over navigation in open waters. Nonetheless, consent will or will not be given by the Scottish ministers.

The Convener: Again, we can raise with the minister any issues that we wish to raise with the Scottish ministers. The minister is coming to the committee to pick up those kinds of issues. The role of the Maritime and Coastguard Agency is a reserved matter, so we might want to take account of that if UK Government officials come to the committee.

Lewis Macdonald: I suppose that I am suggesting that if we are considering the UK dimension on aviation and navigation, those agencies should be at the table alongside whichever other UK Government officials you were thinking of inviting.

The Convener: Yes, that is the point that I was trying to make.

Gavin Brown (Lothians) (Con): The inquiry's original terms of reference and call for evidence asked three key questions: what type of energy future is needed in Scotland; how can it be delivered; and, critically, what decisions need to be taken by when and by whom in order to deliver on that future? I had those three questions in mind, particularly the last one, when I looked through what we had done and considered what we need to do.

A couple of things jump out at me as areas on which we need to get more information, through either oral or written evidence. The first is about marine energy. Up until the trip to Orkney and Caithness, we had not had much detail about marine energy, but this Government and other political parties are putting a lot of our eggs in that basket. What came through in Orkney were the potential obstacles and challenges to marine energy, as well as the decisions that need to be taken if we are to have any hope of maximising our marine energy potential. I am thinking in particular about how we continue our research, as well as how we might help prototypes, from the one-fortieth size models that we looked at, to full-scale trials, which are extremely costly. I am also thinking about the infrastructure around marine energy. Many people say, "We can do marine energy. That'll be great. We've got the best waves in the world." We do, but we have learned that ships have been trying to avoid those waves as far as possible for the past 50 years. Now we want to put our devices right into them. We heard from harbours on both sides of the Pentland Firth that the infrastructure is not there at the moment. We do not want to be in the position of having developed the technology and being good to go, but unable to do anything because we do not have harbour facilities.

A lot of what we have learned is useful, and it would be good to get some of it on the record. What was said was not off the record, but it was not written down anywhere and was not said in a committee meeting. That is my first thought.

My second thought is that we want to say something that progresses the debate. I have mentioned that a couple of times. A third of carbon emissions come from heat. Based on what we have heard, I am not sure whether we have anything particularly new or dynamic to say about heat. I wonder whether we should return to that issue and try to get something to move on that debate.

Those are my two broad thoughts.

The Convener: I presume that the clerks will produce notes about our brief visits, which we can include in the overall evidence. There will be a record of those visits, but points may have arisen that we wish to follow up. We will certainly want to examine the heat issue in our visits to Copenhagen and Germany. Those places are much more advanced with respect to things such as district heating schemes. I hope that we get stuff from those visits that we can put into the pot.

Ms Alexander: I agree with Gavin Brown that the right thing to do at this stage in an investigation is consider its terms of reference—I did the same thing. I was not on the Caithness visit, but I am quite happy to see the marine stuff simply documented in the report, because I cannot believe that anybody here will dispute any of it. It is important that that goes into the report.

We have spent a huge amount of time on onshore wind. In the short term, the majority of renewable energy will come from that. It seems to me that there is a fundamental choice for the committee, which does not necessarily involve taking more evidence. The very best committee work, whether here or in other places, does not simply reflect what was heard; rather, it involves people taking what has been heard and using their skills as public policy makers to decide the appropriate response to circumvent impediments. It would be rare—in fact, it would be unheard of—for a House of Commons committee to undertake an inquiry of the length and complexity of our inquiry without being supported by a vast number of specialist advisers who will come into play at the final moment. I yield to no one in my admiration of the clerks, who have done something quite unusual. They have brought their personal knowledge to bear in a hugely specialist area over a period of more than six months.

However, we need to ask them to act up fully to the role of specialist advisers on a couple of issues that have emerged. If we had had a specialist adviser, we would not be discussing with them now our wanting to hear more evidence on onshore wind.

I refer to what I heard the First Minister say last week. The previous Administration gave consents for four or six onshore wind farms; Lewis Macdonald will correct me if I am wrong. Whatever the number was, it was derisory, and we all want to do better. The political response is the First Minister standing up and saying, “We are consenting to one project a month”, but the truth is that right at the beginning of our inquiry we looked at a pipeline of more than 60 onshore wind projects in development in Scotland. At the current rate, it will take another six years for those projects to receive consents. Why are projects not receiving consents faster than one a month? What are the impediments to that happening? We have been exposed to those questions in the inquiry.

It seems to me that our public policy responsibility is, through the clerks, to invite a specialist adviser to reflect on that evidence. The committee can then discuss how we think we can unblock that, which will be politically difficult for us all, so we might decide not to do it. However, we will have failed in our duty if, after an inquiry of six months, we have not tried to tease out that issue. We will agree on the marine stuff, but the tough one is that the main deliverer, in volume terms, of renewable energy will be onshore wind, which has a comparative advantage. Although we cannot document where that leaves us in an international context, we all accept that there are risks there.

Instead of the committee having another meeting on energy, we should free up enough time for the clerks to consider the issue and assess whether, given the current evolution, we are likely to get anywhere near the targets and, if so, what we should do about it. Prior to writing the report, the committee should have a policy discussion on that issue because we might have some brave, cross-party things to say on it—or not. However, the danger for a committee that does not have a specialist adviser is that we just hear more evidence rather than spend time as policy makers discussing the two or three thorny issues that we must try to unpick.

The same point applies to the areas of heat and energy efficiency. I will not dwell on this, but the response from Andrew Goudie on our budget recommendations claims that our building standards, as announced last year, have the most ambitious energy efficiency targets in the whole of Britain qua Europe. However, he goes on to say that the Scottish housing quality standard requires everybody to meet the target by 2015. We have not bottomed out those two statements. That is an area for specialist advice from a specialist adviser.

My judgment is that our housing stock has appalling energy efficiency. None of the £40 million that we have brought forward in advance housing spend for this year and next year is going on energy efficiency and the Greens’ proposal in that respect got knocked out. I am not technically qualified enough in the area and I do not want to hear 10 more bits of evidence on it. This is not about the bill, but about how close we are to delivering energy efficiency standards in Scotland that even match the European average. Saying something meaningful about where we are operationally in that and how to deliver it would reflect the tone of everything that we have heard about how important heat is and would edge us closer to the big things that we are trying to say in the report rather than just discuss how we produce 200 paragraphs of worthiness.

The Convener: I note your points, Wendy. The intention is certainly to have a members’ brainstorming session before the clerks draw up the draft report for us to consider.

Ms Alexander: I think that we need some specialist advice on the two particular areas to which I referred that draws together what we have learned and what that might imply for policy.

The Convener: Sure. That point is noted.

Christopher Harvie: I am not altogether sure that the advice that we need is necessarily specialist so much as historical. One of the interesting things that I found out in Orkney was that the fact that I had written the history of the North Sea oil industry seemed to come as a total surprise to everyone concerned. That book is still the only account.

Ms Alexander: I have your book. It is a rather good book, if I may say so.

Christopher Harvie: Quite. I am not given to underestimating my own capabilities. However, that book came out in 1993. Alex Kemp’s official history was supposed to come out in 1998, but it is still not here. Historical input is important, because one of the things that will be a real horror in renewables is the glitch that comes when several different projects come on stream at the same time, which forces up the price of all the components because of natural laws of supply and demand. We can see that sort of situation demonstrated in the oil industry. Of course, the big difference is that oil is a huge, multinational concern with ships, rigs and personnel from all over the world. However, what I described is a historical as well as an analytical point.

Stuart McMillan: Obviously, I am new to the committee, and probably about 90-odd per cent of the inquiry evidence has been taken now. However, I was really interested in the evidence that we heard this morning, particularly from Energy4All. I am keen for the committee to ask the communities that are running small projects in Scotland for written feedback—not oral evidence—about their experience of setting up their projects. I fully accept that that would not provide top-level information, but it would give us extra background information that could assist us as MSPs in representing our areas.

12:00

The Convener: That can easily be done.

Lewis Macdonald: I take on board Wendy Alexander's point about focusing on the policy choices rather than simply adding evidence sessions, but I want to seek written evidence from the Institute of Mechanical Engineers, which has examined marine energy and recently produced a relevant report on energy from waste. It would help if the institute gave us evidence on energy from waste, rather than our having a full oral evidence session on that. When we seek the written evidence that the convener described on natural heritage issues, I want us to ask Western Isles Council to provide such evidence.

It would help those of us who did not go on the Brussels trip to understand the European recovery programme a little more and how that might have an impact on renewables and carbon capture in Scotland. If that evidence were provided in writing by the time that we return from the Easter recess, that would help to inform the discussions that we will have going into May.

As a result of our earlier discussion, the MCA and the national air traffic control service are two other UK agencies from which written evidence would be useful.

The Convener: I suspect that the Ministry of Defence is more relevant.

Lewis Macdonald: And the Ministry of Defence—yes.

The Convener: Written evidence would be about those organisations' concerns about wind farms, which concern how they affect radar approaches. I am aware of that issue because of an application for a wind farm in my constituency, not far from RAF Leuchars.

Rob Gibson: Navigational issues are more likely to be raised at the last minute by the Ministry of Defence.

Lewis Macdonald: It is a fair point that we should ask the MOD about aviation and navigation issues, which affect offshore wind. The MOD's views would be interesting.

The Convener: What are members' views on additional oral evidence sessions? It would be useful to ask someone from the UK Government's Department of Energy and Climate Change to talk about issues that we have picked up in the inquiry, such as the UK policies on grid charging—the UK Government's views on that are an important aspect—and what the UK Government is doing in general to encourage renewables.

Rob Gibson: The feed-in tariff issue is relevant, too.

The Convener: If members agree, we will ask the UK Government to send an official—not a minister.

Another option that arose in previous discussions and which I suggested in the paper is examining job creation opportunities, skills issues and other supply chain issues that we identified on some of our visits. The alternative is considering the thorny issue of security of supply, which we have not considered directly, although we have picked up information from various visits and round-table sessions. Do members want to take additional evidence on one of those aspects? We cannot cover both—it is either/or.

Lewis Macdonald: When we invite a DECC official, we could ask them to touch on security of supply, for which DECC has overall responsibility. Beside them, we might want to have the Energy Technologies Institute, which is another UK-wide body that could have a significant input into or impact on energy development in Scotland.

The Convener: We would struggle to cope with all that in one session, to be honest.

Lewis Macdonald: We must be ambitious.

The Convener: We could write to ask the ETI for an update on what it is doing—that might be the easiest way to proceed. I am trying to ensure a manageable arrangement. We have one meeting at which we can have two panels, for both of which we need a reasonable amount of time. Doing more than what has been suggested might be tricky.

Are members content with the proposal to have one evidence session on the economic aspects and one session with UK Government officials and to request the bits of written evidence that members have outlined?

Members *indicated agreement*.

Lewis Macdonald: I agree with that. However, can we keep open the option of adjusting the invitation to the UK Government depending on what the written evidence suggests we need to highlight? Presumably, the UK Government will send three senior people with different specialities.

The Convener: Yes, I imagine that more than one official will give evidence.

Thank you very much for that, colleagues.

Budget Process 2009-10

12:05

The Convener: The final item is to consider the response from the Government's chief economic adviser and director-general economy—a rather unfortunate title in the current situation—to the recommendations in our report on the draft budget for 2009-10. Do members want to follow up on any of his responses?

Lewis Macdonald: I was taken aback by the poor quality of some of the responses. I did not expect to agree with all of them, but I was surprised that some responses did not even attempt to address the points that we had made. In the response to recommendation 1, the blank refusal to provide level 4 figures in the future is very disappointing.

The Convener: The point behind recommendation 1, which seems to have been misunderstood, was not that level 4 figures should be routinely published but that they should be provided as a matter of routine to the relevant committee. Those are two different things.

Gavin Brown: Otherwise, we will just ask for level 4 figures every year and the Government will provide them. That delays us by a couple of weeks in a process for which we have only a month or two.

Lewis Macdonald: The fact that we are considering the Government's response weeks after the budget process has finished is an indication of the consequences of such delays.

Ms Alexander: I want to make three specific points. It does not help that the paragraphs are not numbered—

The Convener: The recommendations are numbered.

Ms Alexander: First, on recommendation 7 in relation to the totality of capital spend, the response rightly refers to the infrastructure investment plan. However, what is planned and what is delivered are not entirely the same thing, especially for infrastructure. We should write back and say that the Government should not only keep the totality of public expenditure "under review", but consider the case for a retrospective look. Given that we will have completed the financial year 2008-09 as of next week, there might be merit in writing back to ask what has been delivered against the plan. As well as scoping what infrastructure investment is planned over the three years, the process should include a formalised look back, as the financial year closes, to consider what has been delivered. That should cover all capital spend, irrespective of whether it involves the non-profit distributing model, conventional funding or public-private partnerships.

Secondly, on the response to recommendation 9, I want to make a point that I have made previously. The response states:

"Building Regulations brought in last year give Scotland the most demanding building standards in the UK in terms of … energy efficiency measures. … All Registered Social Landlords (RSLs) have … Plans in place to meet the Scottish Housing Quality Standard for their existing stock—including energy efficiency standards—by 2015."

I do not recognise that in the investment plans for councils. It would be great if someone could take a look at that.

Thirdly, in the response to recommendation 11, which was about bringing forward capital spend, I note in passing that no mention is made of the health service, although it accounts for a third of the Scottish budget. I am not sure that we necessarily want to write back about that.

The Convener: Health service spend is not mentioned probably because we did not ask about it.

Ms Alexander: The part of the response to recommendation 11 that interests me is the paragraph on local authorities, which states:

"Local authorities are already examining where they can accelerate their expenditure on capital projects by £10m in 2008-09 and £90m in 2009-10. Discussions are ongoing with COSLA on this. Further details will be confirmed in due course."

I suggest that we ask for itemisation of those projects. We agreed our report in the last week in November and we are now a couple of days off the start of the new financial year. Has agreement been reached on the £90 million and, if so, what are the projects?

Gavin Brown: We should ask especially about the £10 million of capital projects for the financial year that is up.

Ms Alexander: Exactly. The current financial year is almost gone.

The Convener: I was slightly surprised that one month away from the end of the financial year—the letter is dated 24 February—discussions were still on-going about that £10 million of capital spending. That seems a bit strange to me.

Ms Alexander: Exactly. We should ask for an itemisation of those projects.

The Convener: Perhaps the response was written somewhat before then.

Do members want to raise any other points?

Lewis Macdonald: The least satisfactory of all the responses is the response to recommendation 12, which was about the Scottish Futures Trust and the bringing forward of early investment. Among a number of extraordinary omissions, the response fails to comment on the long delay in establishing the Scottish Futures Trust that had been the cause of the committee's concern. The business case that it describes was published with no detail, and the proposition that the Scottish Futures Trust should not be a direct funder of projects is a complete change of policy from when the trust was first proposed.

Throughout the description that follows that, there are statements that are simply factually inaccurate. At the top of the second page of the discussion about the Scottish Futures Trust, the hub initiative is described as being managed by the trust, but the paper fails to mention the fact that the initiative is a public-private partnership project that was established under the previous Administration. It seems bizarre that the Government's explanation is so incomplete.

Further down that page, we are told that the SFT has

"started to use the Non Profit Distributing (NPD) model".

I know that model only too well because it has been used in my local authority area. It was established under the previous Administration with funding that was provided in 2002. Again, the description of the SFT's role is entirely misleading. It appears to suggest that the non-profit distributing model and the Falkirk and Aberdeen schools projects that it funds are outcomes of the SFT whereas, in fact, they are outcomes of decisions that were made a number of years ago.

That section of the paper fails to describe the situation accurately or to respond in any positive way to the committee's recommendations on capital projects.

The Convener: I have one additional comment on that section. It says:

"This is all within an enormous programme of infrastructure projects signed off including … the Forth Replacement crossing".

I do not think that anyone believes that the Forth replacement crossing has been signed off. Nobody yet knows how it will be funded, so how can it possibly be signed off? I suspect that that list includes one or two other projects to which the Government has committed but that are not signed off. Clearly, the funding mechanism must be in place before projects can be signed off. I wonder whether the language is acceptable in that respect.

Lewis Macdonald: We could go on. I think that the response to recommendation 3, in which we sought updates from the accountable officers of the enterprise networks, is another misunderstanding. It is not a response to that recommendation but simply says that the accountable officers report to ministers. We hope that they would, but our recommendation was that they should also report to the committee. There is no evidence that that has been understood, far less addressed, in the response.

Gavin Brown: We wanted a six-monthly update because the operating plans of Scottish Enterprise and Highlands and Islands Enterprise rely quite heavily on asset sales. I forget the exact figures, but it was something like £40 million this year for SE and probably about half that for HIE. We were concerned that they were not likely to get market value—or, at least, previous market value—because it is harder to sell property and to get the values that one might want for it. We were also concerned that that would have a big impact on their operating plans.

The Government does not want to do a fixed-point, six-monthly report, but I presume from the response that there is something that it can give us periodically so that we can examine how asset sales are going. We should ask for something, otherwise we will just examine it again under next year's budget.

The Convener: It is not for a Scottish Government official or minister to say what the committee can and cannot ask for from bodies that it is responsible for overseeing. If the committee wishes to ask Scottish Enterprise and Highlands and Islands Enterprise for a six-monthly update, it will do so irrespective of what Dr Goudie has said in his response. If members agree, we will make that point, too.

The pensions issue is discussed at length. It is worth noting that the Finance Committee is considering the impact of the economic downturn on the finances of public bodies. Pensions will be a key part of that, so it might be worth drawing to that committee's attention our concern about the downturn's impact on pension funds in the public sector and the difficulties that it may cause local authorities and other bodies that have funded schemes in the coming years. For example, the additional costs to the Strathclyde pension fund might be substantial and would have to be covered by increases in council tax or cuts in services.

Lewis Macdonald: Although we do not particularly need to do anything in response to this, it is worth noting that Jim Mather gave us evidence that the advice of the Council of Economic Advisers was not available to him as it was above his pay grade, but Dr Goudie directly rebuts that and says that the minister is indeed

"party to the advice given by the Council of Economic Advisers."

We can pursue that the next time we talk to the minister.

The Convener: It is an interesting issue. Why does the minister not know that he is party to a decision?

Do members agree that I should write to the minister to ask for clarification on the points that have been raised and indicate that, if we do not get a satisfactory response this time from him or Dr Goudie, we may wish to take further evidence on some matters?

Members *indicated agreement*.

The Convener: I thank members for attending and for their useful contributions. That concludes today's meeting.

Meeting closed at 12:16.

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