The Committee will meet at 9.30 am in Committee Room 2.

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

2. State of the Scottish economy, the impact of government initiatives and the problems facing SMEs in accessing finance: The Committee will take evidence from—
   - Colin Borland, Public Affairs Manager, Federation of Small Businesses;
   - Garry Clark, Head of Policy and Public Affairs, Scottish Chamber of Commerce;
   - Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress;
   - Eric Leenders, Executive Director, British Bankers' Association.

3. Scottish Government’s response to the first annual report from the Council of Economic Advisers: The Committee will discuss this response.


Stephen Imrie
Clerk to the Economy, Energy and Tourism Committee
Room T3.40
The Scottish Parliament
Edinburgh
Tel: 0131 348 5207
Email: stephen.imrie@scottish.parliament.uk
The papers for this meeting are as follows—

**Agenda item 2**

Note by the clerk  
EET/S3/09/2/1

SPICe briefing  
EET/S3/09/2/2

Scottish Government report on the state of the economy  
EET/S3/09/2/3

**Agenda item 3**

Scottish Government's response to the Council of Economic Advisers' annual report  
EET/S3/09/2/4

**Agenda item 4**

Draft report on the National Planning Framework 2 (to follow) – PRIVATE PAPER  
EET/S3/09/2/5(P)

Note by the clerk  
EET/S3/09/2/6

SPICe summary of written evidence  
EET/S3/09/2/7
Economy, Energy and Tourism Committee

2nd Meeting, 2009 (Session 3), Wednesday, 21 January, 2009

State of the Scottish economy, the impact of government initiatives and the problems facing SMEs in accessing finance – additional written evidence

Background

1. The Committee has received 3 items of written evidence, in relation to the state of the Scottish economy, specifically focussing on the problems facing small and medium-sized enterprises in securing working capital:

   - a submission Highlands and Islands Enterprise;
   - a submission from Scottish Enterprise;
   - a submission from the Federation of Small Businesses.

2. These submissions are attached as the annexe to this paper.

Recommendation

Members are asked to take these submissions into account in their deliberations on the state of the Scottish economy at today’s meeting.

Stephen Imrie
Clerk to the Committee
January 2009
Annex A

HIGHLANDS & ISLANDS ENTERPRISE UPDATE ON HIE’s ECONOMIC RECOVERY RESPONSE PLAN

Thank you for the opportunity for Highlands and Islands Enterprise (HIE) to provide an update on HIE’s Economic Recovery Response Plan to the Scottish Parliament’s Economy, Energy and Tourism Committee.

HIE launched its 7 point recovery plan in early December 2008. This plan was to be developed as a phased response over a three month period, and HIE is pleased to provide the Committee with an update against each of the 7 points as at the 9th January 2009.

Following the launch of the plan HIE representatives met with senior representatives from the banking sector to discuss how best to support the Highlands and Islands business community in the months ahead. A similar meeting is planned with key accountancy firms in early February. HIE have also been in contact with key business organisations in the Highlands and Islands who have indicated their support for the plan.

HIE continue to work closely with colleagues in Scottish Enterprise on national initiatives such as the Scottish Manufacturing Advisory Service and with Scottish Development International on international trade issues. (A series of workshops on international trade development will run throughout the Highlands and Islands in January to March 2009).

In addition to the specific points within the plan HIE staff continue to work intensively with around 200 account managed businesses within the Highlands and Islands. Staff are also working extremely closely with businesses facing particular challenges, offering advice and assistance. The key issue arising from discussions with the business community is the difficulty in accessing finance from banks – this relates to businesses seeking finance for development projects as well as businesses having to review existing finance arrangements.

Specific examples include: a construction company with intentions to expand having proposals rejected by 3 banks; a tourism business, also with expansion plans being forced to reduce them as a result of a reduction in the level of borrowing available; a manufacturing business being advised that their overdraft facility was to be reduced by 50% with immediate effect and an aquaculture business having interest on a loan increased by 2%.

HIE are in discussion with a number of businesses regarding the potential for assistance through Interest Relief Grant to address some of the challenges outlined above.

On a more positive note staff are still discussing development projects with businesses throughout the Highlands and Islands and businesses continue to
take up opportunities to be involved in programmes such as the Entrepreneurial Development programme run in conjunction with MIT.

**Update on HIE’s Seven Point Plan**

1. **One to one advice sessions** - the one to one advice available via HIE’s supply partner continues as normal in advance of the introduction of the Business Gateway in the Highlands and Islands. Advice is available to businesses of all sizes operating in all sectors. To date, there been no significant increase in demand for advice relating to the economic down turn.

2. **HIE Advice Line** - The HIE Adviceline was established in mid December and is being delivered by HIE’s supply partner. It can be accessed by a Freephone number 08000 884 884. The advice line operates from 0800 - 1800 Monday to Friday and 0900-1300 on Saturdays.

Prior to the Christmas period the number was published on the HIE website and HIE staff also referred callers to the advice line as appropriate. On the 5th January 2009 a media campaign was launched to promote the advice line across the Highlands and Islands. This has involved press and radio advertising with adverts appearing in all local papers, the Press and Journal and on Moray Firth and Community radio stations. A press release issued on 5th of January resulted in both television and radio coverage.

Small business cards are also being produced promoting the number which will be distributed in area offices/banks/ etc. and a direct mail shot is planned for mid January.

On calling the advice line, callers have direct contact with an advisor who will either deal with the query immediately on the phone, refer them to another named contact - for example in HMRC, a bank - or refer them for more in depth, one to one, free advice.

To date numbers calling the advice line have been relatively low – although these are picking up as the promotional campaign gains momentum. The type of queries being dealt with are varied, ranging from preparing revised cash flow projections to advice on potential redundancy. As time progresses we will be able to better quantify the level and nature of demand for advice and tailor our response appropriately.

3. **Local business clinics** are due to start in early February. These will take place in Lerwick, Kirkwall, Stornoway, Benbecula, Thurso, Inverness, Tain, Fort William, Portree, Ullapool, Elgin, Oban, Dunoon and Campbeltown. Clinics will run from 1500 - 1900 and will comprise of a series of short video presentations on topics such as Tax Changes, Finance and Seeking Opportunities. The presentations will involve key partners (for example banks, HMRC, HIE) and be repeated continuously throughout the clinic. Representatives from partner organisations will also be available for short one to one sessions with individuals.
4. **Enhanced on line information** - the HIE website front page has been updated to include a direct link to the HIE Business site and also some information on the advice available. Visits to these pages in January has increased by around 60% compared to that in December.

5. **Business Masterclass Programme** - the first in a series of events will take place on the 13th of January entitled Business Survival Through a Recessions and delivered by Sir Richard Needham. A further 4 events are planned for February, March and April. In addition a series of international trade development workshops will run throughout the Highlands and Islands during January, February and March 2009.

6. **Targeted Interested Relief Grant** – Interest Relief Grant has always been part of HIE’s package of support but in recent years has not been widely used. As at 13th January we have had a number of enquiries regarding IRG support, with two potential cases in the pipeline.

7. **Acceleration of capital spend** – Two accelerated capital projects, an advance high specification unit on Forres Enterprise Park and advance units in Argyll have already been approved with work starting imminently.

HIGHLANDS AND ISLANDS ENTERPRISE
12th January 2009
SCOTTISH ENTERPRISE RESPONSE TO THE STATE OF THE ECONOMY AND ISSUES FACING SME’S

Summary

All of Scottish Enterprise’s (SE) activity is directed at achieving economic growth, never more so than in the current climate. SE helps companies respond to change and exploit opportunities whatever the position of the economic cycle.

SE is currently implementing a coherent action plan in response to the current economic climate, contributing to the Scottish Government’s recovery programme. This note draws on the current experience in delivering this plan, particularly the messages coming from our work with some of Scotland’s most growth-focused companies. In addition, this note draws on SE’s role in helping to develop Scotland’s wider business environment, particularly our focus on Scotland’s key sectors.

The analysis presented in this paper shows a very mixed picture for the Scottish economy. In many ways it is simply too early to analyse the impact of the dramatic changes in the economy over recent months and the speed of change makes forecasting precarious. However, in contrast to many business surveys which appear only to conclude on a pessimistic note, this response suggests that there are grounds for some cautious optimism. There are opportunities in a rapidly changing economy.

The biggest single challenge is probably still access to business finance. The biggest opportunity is probably still those knowledge-based, international niche markets, in key sectors, that Scottish firms have been successful in the recent past.

Introduction and Background

SE is Scotland’s main economic, enterprise, innovation and investment agency\(^1\). In making our contribution to the Government Economic Strategy, the ultimate goal of Scottish Enterprise is to stimulate the sustainable growth of Scotland’s economy and to achieve this we help ambitious and innovative businesses grow. We work with these companies directly and also work with public and private sector partners to help develop the wider “business environment” in Scotland. Following the recent review of the Enterprise Networks, SE has a particularly focussed remit and we deliver dedicated support services locally, nationally and internationally.

To help build a world-class economy, SE’s work is driven by identifying and responding to the expressed demand of those key sectors in Scotland that have real global competitive advantage, particularly:

\(^1\) [http://www.scottish-enterprise.com/](http://www.scottish-enterprise.com/)
• Energy, including oil and gas, power generation and renewables
• Financial and business services, with our direct focus on the first of these,
• Creative industries within which we focus on digital markets
• Food and drink
• Life sciences
• Tourism
• The “enabling technologies” that support these industries

We work in partnership with Scottish Government, universities, colleges, local authorities and other public sector bodies, such as VisitScotland, Highlands and Islands Enterprise and Skills Development Scotland, to achieve these goals and to maximise our contribution to the Scottish Government’s Economic Strategy. In particular, we are aligning our work alongside key partners, as a key member of the Strategic Forum, chaired by the Cabinet Secretary for Finance and Sustainable Growth

Current economic climate

SE is undertaking dedicated business reviews with each of the c.2000 companies with which we have an “account managed” relationship. This is to help them develop actions to prepare for the coming months. This has also served to help SE better understand the issues that these companies are facing and consequently how our services can be tailored to enable companies to be stronger in any subsequent recovery.

The initial analysis of the outcomes of these reviews provides some insights that help provide a specific response to the questions raised by the Committee. It is therefore not the intention to comment on the wider situation being faced across the whole of the economy – there are many other pieces of analysis that can provide that. Rather, this response provides a more focussed assessment drawn from the operational experience of SE staff and feedback drawn from contact with SE’s key client group. This analysis supports the more general commentaries that are available which have identified key challenges and risks to the Scottish economy including declining markets and difficulty accessing business finance. However, it also identifies views that could be categorised as being significantly less pessimistic than other reviews. In many ways, this is to be expected, since the analysis is drawn from those companies with the most significant growth potential. It also points to the need to avoid over simplistic assessments.

What is the current state of the Scottish economy?

In answering this question, this submission draws on two of the principal areas where Scottish Enterprise is charged with helping to deliver the Government Economic Strategy, namely our work with companies with growth potential and broader support for key sectors.
**Turnover**

Initial analysis of recent work that has been carried out with the companies directly supported by SE would suggest that about three quarters of them - despite the downturn - had managed to either maintain or increase their turnover. Looking forward, a similar proportion expect their turnover to grow or at least remain static. Companies are suggesting that new opportunities will be in both international markets, through opportunities in exporting, as well as domestically.

While this is more positive than that reported by various business surveys, this is likely to be because of the nature of the firms we work with. The firms within the growth portfolio have been selected on the basis of their growth potential and the level to which SE can help them to achieve this potential.

This is not to say however that there are not real effects from the downturn. Some companies have reported very real pressures being faced with considerable drops in demand with lower order books leading to redundancies. However, at the same time, other firms are recognising that there are opportunities from the downturn and are considering options that will help them once the downturn eases. These opportunities include brand development, exploring new markets and potentially acquiring others within their industry.
Cost of Inputs

While the inflationary pressures have abated very recently, the cost of inputs is still of very real concern to firms. With the current downturn, firms are looking to reduce overall costs and reduce waste in an attempt to maintain their competitiveness and profitability. About two thirds of the firms SE works with directly appear to have experienced increases in utility bills in the three months from September 2008. Transport costs have increased for more than half and a third have seen increases in labour costs, although it is not possible to estimate the level to which these input costs have risen, nor likely future changes.

Access to Finance

There have been many reports indicating that there is a significantly reduced availability of credit and again, numerous business surveys have stated that access to finance is proving to be a barrier to company growth. The majority of the companies in the SE growth portfolio do not appear yet to have faced this difficulty as most companies have reported no changes in their access to credit facilities.

However, for some, access to finance is proving to be a barrier, along with issues such as particularly challenging payment terms for suppliers. Furthermore, companies are reporting increased costs when re-financing and the times taken to make investment decisions are having detrimental effects on some businesses. A particular issue is also in the availability of credit insurance for international trade. Supporting this overall picture of some firms finding it hard to raise finance, demand has risen markedly for the equity finance that SE provides with its co-investment partners.

Investment Plans

Again, despite the economic downturn being faced, the significant majority of firms that SE has a strong relationship with are still committed to opportunities to invest in their future growth. However, we are also aware that for a minority, investment and growth plans have had to be put on hold. In some cases, firms have to concentrate on cash flow rather than investment.

Issues being faced in key sectors

To date, we have not undertaken any specific research focusing on key sectors but, nonetheless, there is considerable qualitative evidence of the issues being faced by each of these.

Energy

The energy industry is made up of three sub sectors, oil and gas, power generation and renewables, each of which have different market drivers. To date, the main effects are being felt within oil and gas due to the recent uncertainty on oil prices. This is being felt particularly in exploration and other
capital expenditure where oil companies and major contractors and cutting their investment budgets and are focussing on cost cutting. This appears to be cascading down the supply chain where companies who provide services to these major operators are reporting drops in orders as contracts are not awarded. However, it must be stressed that a number of companies are still reporting long term healthy order books and those which rely on operational expenditure in oil and gas do not forecast much change in the near to medium term.

Investment decisions in power generation tend to be very long term so there is little evidence coming through at this stage. There is increasing optimism over the potential that renewables can offer the Scottish economy, so long as all components of this complex industry can be aligned towards the growth potential it holds.

**Financial Services**

As has already been well documented elsewhere, the financial services industry has been badly affected by the recent economic downturn. There are reports that companies are putting expansion and recruitment plans on hold but this is not uniform across the industry with some firms choosing to proceed. While cost cutting is definitely taking place and is likely to continue, there are still opportunities and, dependent on the market that the firm operates in, there remain potential areas of expansion. Over the medium term, it is still anticipated that Scotland will have a cost advantage that can be exploited as major firms consolidate their operations.

**Creative Industries**

The majority of the growth companies within the creative industries come from the Digital Media and ICT sectors and it is here that we engage rather than with cultural industries. Many of the companies in these areas are anticipating falling turnovers over the coming year. Within the production sector, there is a concern that there has been a reduced level of commissioning from broadcasters as a result of the recent falls in advertising revenue. In a more positive vein, however, games companies are reporting continued growth.

**Food and Drink**

Sales within the sector have not been impacted during the run-up to the major trading period of December. The next three months will be critical - the industry expects a fall in sales over this period, however the level and intensity will signify how serious the downturn is for the sector. In the drinks industry, which has been the major growth part of the industry in recent years, the worldwide demand for whisky has meant that firms are currently working at capacity.

For smaller food processors, there is a concern that already tight margins impacted by energy and raw material costs, will continue to be affected as the
major retailers embark on price promotions, putting pressure on suppliers to fund promotional deals and increasing margin pressure. Within the UK, consumer trends indicate shoppers are continuing to purchase the same amount of food; but they are 'trading down' - as evidenced by the increase in growth by ASDA, Morrisons and discounters. The opportunity is for the food and drink industry to quickly respond to these changes in market trends.

Companies are increasingly looking at export markets, given the currently more favourable exchange rates. However there appears to be a particular issue in obtaining credit insurance for international trade.

**Life Sciences**

The life sciences industry in Scotland is dominated by small firms and in common with other small firms, they have faced difficulties in increased costs in both energy and transport. There are also indications that for ‘pre-revenue’ firms there have been difficulties in raising finance, both for working capital, where there are reports of increased costs and reduction in availability of overdraft facilities, and for follow on equity investment from institutional investors. Even where equity is available, this is likely to be on more stringent terms for the company. For later stage investors, there are likely to be difficulties in the IPO (initial public offering) market. Furthermore, the large pharmaceutical companies are currently reviewing their product pipeline and there are reports that this may be leading to them delaying the placing of contracts.

**Tourism**

As with food and drink, the picture is not entirely clear. While it is hoped that the current climate, coupled with the recent fall in the value of sterling should lead to a decrease in foreign travel and an increase in domestic tourism, it is not yet clear if this is taking place. There are reports that some tourism companies are delaying refurbishment plans while others are continuing to invest.

**What more could be done to assist SME’s through the current crisis?**

Scottish Enterprise has recognised the need to vary the services it offers to customers and stakeholders and has produced an action plan which sets out clearly where additional resources will be deployed to help meet the aspirations detailed in the Government Economic Strategy. The following provides examples of the sorts of additional activity being undertaken in addition to the usual services that we provide to customers and include:

**Business reviews:** we are undertaking dedicated business reviews with every account managed company we work with to help them identify and exploit new opportunities. There are likely to be increased demand for SE’s services as a result of this support. In particular, SE is providing additional support to assist companies to innovate and undertake R&D, as those who
invest at this time in an economic cycle are more likely to be successful when the economy moves out of it.

**Access to Finance:** We have seen an increase in demand for the risk capital support SE enables businesses to access. Additional resources have been allocated to meet this and there may well be further demands going forward. To enable a further response to future demand, the Scottish Government and SE are jointly scoping out a proposal, that will be subject to Ministerial approval, to increase the level of equity finance available to firms in Scotland through access to EU funds using the JEREMIE model (Joint European Resources for Micro to Medium Enterprises) including a loan from the European Investment Bank. We have also submitted an application for a further £20m in support from ERDF for equity finance with a final decision expected in March 2009.

**Scottish Manufacturing Advisory Service (SMAS):** There has been increased demand for services that help businesses increase efficiency. The Scottish Manufacturing Service is designed to help manufacturing firms eliminate waste from their processes, increase the quality of products and produce goods in a more cost effective manner, ultimately helping them to become more competitive. We plan to double the number of projects that SMAS can support in response to increased demand from companies, delivering £65m in added value productivity.

**Infrastructure Projects:** The Scottish Government has provided additional funding this year which is allowing us to bring forward investment in key infrastructure projects including the SECC Arena for the Commonwealth Games, Fife Energy Park and the Edinburgh Bioquarter.

**Support to Exporters:** Scottish Development International has increased the level of service available to firms wishing to export by increasing the eligibility for support to a further 2-3000 businesses. It has also instituted flexibility in payments allowing them to “sell now, pay later” for participation at major trade shows where SDI has taken exhibition space.

**New European powers:** SE is exploring how to utilise new European powers that range from the support to high growth “young innovative enterprises” through to possible relaxation of state aid regulations. There may be demands for additional resources to deliver these new powers.

**Wider support to Firms:** SE is undertaking a major marketing and communications campaign entitled “Now’s the Time to Ask” which invites all companies to contact us on areas where they would require assistance to help them to grow. Every question submitted will be answered with practical information on how to tackle the issue including business guides, information and advice from Scottish Enterprise and Scottish Development International, or partner organisations like Business Gateway.

Beyond what Scottish Enterprise can deliver, probably the biggest single issue facing businesses is access to finance. The cost, and particularly the
flow, of business finance to businesses is critical. We welcome the wider actions of Government and over coming months, everything possible will need to done to enable and encourage banks and other investors to ensure businesses have access to finance for investment.

How welcome are our initiatives and what more, if anything is needed?

At present, it is simply too early to assess whether our responses are having significant impacts on the companies we work with. Evidence suggests that SE has a significant impact in contributing to the growth of the economy and we would envisage that our work helps companies continue to exploit opportunities, build a more robust business environment and help mitigate some of the effects of the downturn. The companies we work with provide a very positive response to our work with them. We remain committed to ongoing review with our key customers, both through our direct work with companies and through the recently set up Industry Advisory Boards for each of the key sectors, as well as the Regional Advisory Boards that draw in the experience of those businesses throughout Scotland. We will continue to listen to and respond to the advice of Scotland’s businesses.

Conclusion

Despite the economic downturn, many of the companies with whom we work state reasonable levels of confidence about their prospects for the future. However, we are not complacent and recognise the very real challenges being faced by many companies and also the market conditions being faced by the key sectors. Scottish Enterprise will continue to monitor these and amend its activities in light of changing economic circumstances and demand from our customers, working alongside key partners as we contribute to the Government’s recovery programme.

Scottish Enterprise
January 09
Federation of Small Businesses submission The Credit Crunch and Cash-flow in the Real Economy

The Federation of Small Businesses is Scotland’s largest direct-member business organisation, representing around 20,000 members across the economy and across the country. We campaign for an economic and social environment which allows small businesses to grow and prosper.

Small businesses are the backbone of the Scottish economy – small and medium-sized enterprises (SMEs) account for 99% of all Scottish businesses and provide 53% of private sector employment.

What are the root causes?
It is clear that the turbulence on the world’s financial markets is having an effect on small firms who do business in the real economy. The most pressing concern is that, across Scotland, perfectly viable small businesses are facing serious cash-flow issues.

This can be attributed to three key factors:

1. Demand has dropped. Figures from the beginning of December 2008 show that 64% of FSB members in Scotland had seen trade decrease in the previous two months. The corresponding figure at the end of October 2008 was 54%.
2. Small firms are having to wait longer to get paid for work they have completed and for which they have already outlaid sums for materials etc. 34% of respondents to our December survey reported an increase in the time between invoicing and full payment.
3. Finance is less readily available and, where it is, it is more expensive or is offered on prohibitive terms. Despite the taxpayer’s historic rescue of the banks, 28% of our members saw the cost of existing finance increase in the two months to December and 31% saw the cost of new credit increase.

For a small businesses without large cash reserves, this quickly leads to serious, although totally preventable, cash-flow problems which can threaten the future of the business.

Has the recent action worked?
It is too early to say definitively whether the recent, dramatic moves such as the interest rate cuts, recapitalisation of the banks, the fiscal stimulus package and more are having the intended effect.

However, the early indications from our members are that credit does not appear to be more readily available than it was in the autumn. Indeed, in our two most recent member surveys, the percentage of respondents reporting an increase in the cost of new credit rose from 26% in October 2008 to 31% in December 2008.
That said, we welcome the announcement on 14\textsuperscript{th} January 2009 on the Enterprise Finance Scheme. We look forward to this addressing the cash-flow question by vigorously encouraging banks to resume lending. We have argued that this scheme is the banks’ last chance to repay the faith shown in them by the taxpayer and resume normal lending practices. However, for this to happen, Ministers, the business community and, above all, banks must all play their part.

**What are the effects on small businesses?**

An FSB members’ survey carried out at the end of October 2008, showed that what is traditionally regarded as “non-essential” spending – on, for example, advertising / marketing, capital investments and training – was already being cut. Members were reluctant to take the more severe steps which would have a more permanent effect on the business, such as cutting jobs.

We are also seeing more and more small business people using their personal finances to sustain their businesses. The latest figures from the banks themselves show that this runs to around £900 million UK-wide. This is clearly not sustainable in the long term.

**And what is likely to happen?**

Figures from December 2008 showed that about one in five of our members had already laid off staff and 31\% feared they would need to do so if the situation did not improve. This is obviously the last resort for many small firms – not only do they know their staff, they know the value of their staff to their business.

**What can the Scottish Parliament do?**

Although the roots of this situation lie in international markets, it does not follow that domestic governments are powerless to act. While no one legislature will be able to forge a solution single-handedly, there are concrete steps which governments at all levels – local authority, Holyrood and Westminster – can take to ameliorate small firms’ credit and cash-flow difficulties.

For its part, we have argued that the Scottish Government could examine:

1) **Public Sector Payment Times** – We welcome the First Minister’s statement that the Scottish Government, “will aspire to the 10-day target for paying bills to small businesses in Scotland.” We would also urge the Scottish Parliament to use its influence with local government and other public bodies to ensure that, where they are found wanting, payment practices improve.

2) **Business Support Services** – We need to be assured that local authorities will be sufficiently well-resourced to provide support services to local businesses through these tough economic times. While we appreciate that there will be competing calls on councils’ resources as local authority budgets are drawn up, if a central government policy decision has been taken that certain business
support services are to be delivered by local authorities, then it is central government’s responsibility to ensure those local authorities have the funds to carry out that policy.

3) **Regulation Moratorium** – Not all measures to support smaller firms require the spending of public money. One move which could be implemented immediately at zero cost would be the suspension of all forthcoming legislation which would have a disproportionate effect on small businesses. While certain regulations of course are required to be tabled, there are significant pieces of primary legislation in the pipeline – from alcohol licensing reform, to the waste sections in the Climate Change Bill and more – which there is no pressing need to implement at this time. When business needs certainty, this is not, we would submit, the right time to be pressing ahead with a further raft of regulations and frameworks.

4) **Procurement Reform** – While the broad thrust of the procurement reform agenda is welcome, the FSB is concerned that the rapid and increased focus on the aggregation of public sector contracts is acting to exclude Scottish SMEs. We have therefore urged the Scottish Government to look at ensuring the new regime recognises that any short-term cost savings must be weighed against the overall effect on local economies.
Economy Energy & Tourism Committee

Update on the Scottish economy

This paper provides the most recent figures for a selection of key economic indicators:

- Economic growth (GDP)
- Credit conditions
- Small business finance
- Business activity
- Unemployment
- Household finance
- Retail sales
- New car registrations
- House prices
- Exchange rates

Key summary

“It is often said that no news is good news, but for the last few months it would be more appropriate to say that all news is bad news, with data around the world containing no sign of a rebound on the horizon” (RBS, 2009a).

- Economic growth – forecasts average -1.0% for 2009
- Credit conditions – the supply and demand for credit has reduced
- Small business finance – 31% reported a rise in the cost of new credit
- Business activity – over 40% reduced activity over month to December
- Unemployment – 2.8%, up 0.2% on previous month
- Household finance – income availability has fallen
- Retail sales – November like-for-like sales down 0.8% on previous year
- New car registrations – December figures down 21.2% on previous year
- House prices – decrease of 3-8% on previous year
- Exchange rates – the Euro is trading €1.1 against Sterling
Economic growth (GDP) and forecasts

- The latest figures for economic growth show 0.1% GDP growth for Q2, 2008 in Scotland and -0.5% GDP decline for Q3, 2008 in the UK.
- Figures due at the end of this month are expected to show negative growth for the UK economy in Q4 2008 confirming that the UK economy has been in recession since the start of Q3 2008. Scottish data for Q3 2008 will be published at the same time and are likely to also show economic decline.

Table 1: Change in GDP on Previous Quarter in Scotland and UK

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Scotland</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 Q3</td>
<td>+0.5</td>
<td>+0.8</td>
</tr>
<tr>
<td>Q4</td>
<td>+0.7</td>
<td>+0.5</td>
</tr>
<tr>
<td>2008 Q1</td>
<td>+0.2</td>
<td>+0.3</td>
</tr>
<tr>
<td>Q2</td>
<td>+0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Q3</td>
<td>To be published 28th Jan 09</td>
<td>-0.5</td>
</tr>
</tbody>
</table>


- The record of forecasters in predicting the change in economic circumstances over the past year has not been good. Nevertheless forecasts are closely watched as they often influence and lead sentiment.
- Over the last year forecasts have been consistently revised downwards and the average forecast for the Scottish economy is now a reduction of 1.0% in 2009 with an increase of 0.8% in 2010.

Figure 1: Forecast change in Scottish GDP

Note: All forecasts published in Nov 08.
Source: Scottish Government The State of the Economy (2008b)

- In HM Treasury’s Pre-Budget Report published in November 2008, economic decline of between -1.25% and -0.75% was predicted for 2009, along with economic growth of 1.5% and 2.0% for 2010 (2008a). However, the OECD has stated that these estimates are too optimistic (The Telegraph, 2008)
Credit conditions

The CBI stated that credit flows are “the most important factor determining the prospects for the economy” and went on to say that “If credit flows can be restarted, the monetary stimulus now in the pipeline is significant, especially when the fall in the pound is taken into consideration” (2009).

- UK lenders reported that they had reduced the availability of credit to both households and companies in the three months to mid-December and expected to curb it still further in the first quarter of 2009.
- Demand for credit by non-financial businesses has also reduced over the past three months, driven by reduced credit demand for capital investment, merger and acquisition activity and the real-estate sector.
- Default rates on lending increased for both households and companies over the past three months with a further rise anticipated.

Source: Bank of England Credit Conditions Survey (2009a)

Small business finance

- Over a quarter of Scottish small businesses (28%) reported an increase in the cost of existing finance over the 2 months to December 2008, with 31% reporting an increase in the overall cost of new credit.
- By December 2008, a fifth of Scottish small businesses had already reduced employee numbers as a result of cash-flow problems.

Source: Federation of Small Businesses (2008)

On 14 January the Department for Business Enterprise and Regulatory Reform announced ‘Real Help for Businesses’, a £20 billion small business loan guarantee system, stating:

“The Government will provide banks with guarantees covering 50 per cent of the risk on existing and new working capital portfolios worth up to £20bn. The guarantee will secure up to £20bn of working capital credit lines for companies - ensuring they are safe from reduction or withdrawal” (2009).

Business activity and output (Purchasing Managers Index)

- 40% of Scottish manufacturers had lower output in December than the previous month - the sharpest drop in the 11-year history of the survey. There was also a further sharp reduction in staffing in December as firms responded to reduced demand.
- 43% of Scottish service companies reported that business activity was down – the steepest contraction in the 11-year history of the survey. A decline in employment is evident in the sector with reports of redundancy programmes and staff not being replaced.
Figure 2 – Scottish Purchasing Manager’s Index January 2009

An index reading of above 50 signals an increase on the previous month. Readings below 50 signal a decrease.

The British Chamber of Commerce published its Q4 2009 economic survey on 12th January and said:

“There are no positive features in the Q4 results. Domestic demand is plunging, exports are falling, and confidence is plummeting. All the critical national balances have worsened in Q4, for both manufacturing and services, and all are in negative territory. It is clear that the UK economy is facing a very serious recession, and the downturn is deepening at an alarming pace. The collapse in all the Q4 confidence balances to record lows is particularly ominous” (2009).

Unemployment

- Claimant count figures for November 2008 show the Scottish unemployment rate was 2.8%, the same as that for the UK. This compares with 2.1% in November the previous year.
- Unemployment is most prevalent amongst the elementary and sales & customer service occupations. However, the largest year on year increase in unemployment has been amongst managers & senior officials, skilled trades and professional occupations.
Figure 3 – Annual percentage change in Scottish unemployment by usual occupation November 2008 (Claimant Count)

Source: NOMIS (2008)

The Herald wrote:

“White-collar staff in management and consultancy have already been the biggest victims of the recession so far, according to new figures. Between June and November, the Insolvency Service received notifications of 22,038 redundancies at head offices in the management and consultancy sector - an average of 848 a week” (2009).

On 12th January the Prime Minister’s Office announced:

“£500m to be spent on providing recruitment subsidies for employers, financial help for new business start-ups and enhanced training opportunities for those out of work. The investment is expected to help 500,000 people into work or training over the next two years. […] The investment forms part of the Government’s £10 billion fiscal stimulus that will bring forward public works programmes and create or protect as many as 100,000 jobs in the next year” (2009).

Household finance

- UK households reported in autumn 2008 that the income available after meeting household bills had fallen over the past year and that they saved less than they had expected.
- Some households had been put off spending by tighter credit conditions, and more households were finding their debts to be a burden than in the mid-1990s.

The Scottish Government announced on 13th January that The Debt Action Forum is to be set up to examine information and initiatives on debt relief, debt advice and repossession and recommend a package of legislative and non-legislative measures to tackle personal debt (2009).

Retail sales

- Like-for-like Scottish retail sales in November were 0.8% lower than in November 2007. This is the largest decline since August 2000.

<table>
<thead>
<tr>
<th>Table 2 – Like-for-like retail sales November 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail sales</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Nov 2008</td>
</tr>
</tbody>
</table>

Source: Scottish Retail Consortium Scottish Retail Sales Monitor (2008)

The Financial Times stated:

“Dozens of retail chains have gone into administration in recent weeks with the loss of thousands of high street jobs” (2009).

Retailers include; Land of Leather, Viyella, Adams, Waterford Wedgwood, USC, Zavvi, Whittard of Chelsea, Officers Club, The Pier, Woolwoths, MFI, MK One, Miss Sixty, Rosebys, The Works, Stead & Simpson and Dolcis.

HM Treasury announced in their 2008 Pre-Budget Report that they are temporarily reducing the VAT rate from 17.5% to 15% until 31 December 2009, seen as a move to encourage high street spending (2008a).

New car registrations

- The number of new car registrations in the UK fell in December 2008 for the eighth successive month, an indication of falling consumer confidence in the economy.
- Registrations in 2008 were the lowest since 1996, with further decline forecast for 2009.

<table>
<thead>
<tr>
<th>Table 3 – New car registrations in the UK in Dec 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
</tr>
<tr>
<td>December</td>
</tr>
</tbody>
</table>

Source: Society of Motor Manufacturers and Traders, 2009

House prices

- Average house prices in Scotland have fallen over the last year, albeit to a lesser extent than in the UK. The Nationwide survey registers the greatest decrease in Scottish house prices at -8.1%.

<table>
<thead>
<tr>
<th>Table 4 – House prices in Scotland and the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>House prices</td>
</tr>
<tr>
<td>Survey Source</td>
</tr>
<tr>
<td>Nationwide</td>
</tr>
<tr>
<td>Halifax</td>
</tr>
<tr>
<td>Registers of Scotland</td>
</tr>
<tr>
<td>Dept of Communities &amp; Local Government</td>
</tr>
</tbody>
</table>
Sources: Nationwide (2009); Halifax (2008); Registers of Scotland (2008); Department of Communities & Local Gov’t (2008).

Note: Due to differences in survey methods, house price survey data show considerable variation in the level of prices in Scotland.

On 2nd September HM Treasury announced that stamp duty land tax will not apply to purchases of residential property of £175,000 or less until 3rd September 2009 (2008b). This was seen as a move to help homeowners and buyers at a time when property values and sales have decreased.

Exchange rates

- Sterling began to decline against the euro in the second half of 2007 before stabilising for a period. Since mid 2008 it has experienced a sharp drop against the dollar and since October an even sharper drop against the euro reaching an historic low of €1.02 to £1 at the end of 2008. There has since been some recovery but the trade weighted index remains more than 20% down on the rate at January 2005.

Figure 4 – Exchange rate between Sterling and the Dollar/Euro 2007-09

Source: Bank of England Statistical Interactive Database (2009c)

Scherie Nicol and Jim Dewar
SPICe Research
16 January 2009

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


State of the Economy

Dr. Andrew Goudie
Chief Economic Adviser
December 4, 2008

It is intended that this document should be the first in a series of assessments of the State of the Economy disseminated in this way. All feedback or comments would be warmly welcomed.

The Scottish Government
Key Developments

Over the course of the past 16 months, the global economy has experienced two powerful external shocks: the international financial crisis, which has been closely associated with a credit crunch, and a severe commodity-price shock.

In the first phase – broadly from August 2007 to August 2008 – problems in the US sub-prime mortgage market impacted negatively on the balance sheets of financial institutions in many advanced economies. This led to a severe tightening of credit conditions around the globe.

In September this year, a second phase began as the credit crunch deteriorated very sharply into a severe crisis of confidence in financial markets – initiated to a large extent by the collapse of Lehman Brothers, a US investment bank, on September 14th. This precipitated a systemic financial crisis – reckoned the most severe since the First World War - and the collapse or near-collapse of several of the world’s largest financial institutions, some of which were only saved from bankruptcy by bail-outs from national governments. Rescue packages were adopted in most advanced economies in an attempt to bring stability, focused around five key elements:

1. Recapitalisation of banks
2. Injection of further liquidity
3. Guarantee of inter-institution lending
4. Co-ordinated interest rate cuts
5. Fiscal stimulus

In addition, several economies were themselves destabilised and forced to seek support from the IMF in order to restore a degree of financial equilibrium, notably Iceland, Ukraine and Hungary.

In the third phase, as the stabilisation packages re-established a degree of stability, the financial crisis evolved into a major threat of global recession across all the advanced economies.
Recent global trends.

The graph above illustrates clearly how sharply the global economy has decelerated in recent months. Throughout 2007, growth in the key economies was positive, albeit somewhat volatile between some quarters. Similarly, the first quarter of 2008 reflects a relatively robust performance before the deterioration in the second quarter with the exception of the US economy which benefited from a strong fiscal boost in June 2008.

The third quarter reflects a more general decline as all the major economies recorded a fall in GDP as the credit crunch evolved into the more serious crisis in September and October.

Underlying these significant trends are substantial movements in the components of GDP. For example, in the USA, consumption fell by -3.1% in the third quarter of 2008, thereby recording the largest fall since 1980. Moreover, the outlook for US consumption appeared particularly problematic with the consumer confidence index roughly halving compared to 2007. Similarly, US unemployment has increased sharply over the year by over 2.5 million.
<table>
<thead>
<tr>
<th>Country</th>
<th>Latest Annual GDP Growth (OECD)</th>
<th>IMF GDP Growth Projection 2008 (%)</th>
<th>Downward Revision to 2008 (from July WEO), % points</th>
<th>IMF GDP Growth Projection 2009 (%)</th>
<th>Downward Revision to 2009 (from July WEO), % points</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>-0.1% **</td>
<td>1.4</td>
<td>+ 0.1</td>
<td>-0.7</td>
<td>- 1.5</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-0.2% *</td>
<td>1.2</td>
<td>- 0.5</td>
<td>-0.5</td>
<td>- 1.7</td>
</tr>
<tr>
<td>Germany</td>
<td>-0.5% *</td>
<td>1.7</td>
<td>- 0.3</td>
<td>-0.8</td>
<td>- 1.8</td>
</tr>
<tr>
<td>France</td>
<td>-0.3% *</td>
<td>0.8</td>
<td>- 0.8</td>
<td>-0.5</td>
<td>- 1.9</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.3% *</td>
<td>- 0.2</td>
<td>- 0.7</td>
<td>-0.6</td>
<td>- 1.1</td>
</tr>
<tr>
<td>Spain</td>
<td>-0.2% **</td>
<td>1.4</td>
<td>- 0.4</td>
<td>-0.7</td>
<td>- 1.9</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.7% *</td>
<td>0.5</td>
<td>- 1.0</td>
<td>-0.2</td>
<td>- 1.7</td>
</tr>
<tr>
<td>UK</td>
<td>-0.5 **</td>
<td>0.8</td>
<td>- 1.0</td>
<td>-1.3</td>
<td>- 3.0</td>
</tr>
</tbody>
</table>

Growth Forecasts

These trends in global economic conditions are reflected in the manner in which growth forecasts have been revised down throughout 2008 as the scale of the global economic downturn became clearer. This table highlights the latest IMF forecasts published in November 2008 and how they compare to the forecasts published in the IMF’s World Economic Outlook back in July 2008.

The projected growth trends are now strongly negative, but the size of the revisions and the speed with which these revisions have been made are particularly noteworthy.

The largest revision by the IMF for the G7 economies has been for the UK economy, which is now forecast to have growth of 0.8% in 2008, before contracting by 1.3% in 2009. This trend compares with a growth rate of 3.0% in 2007.

Since July 2008, when UK growth for 2009 was forecast at 1.7%, the IMF forecast has been revised down by 3 percentage points: indeed, in the course of one month from October to November 2008, the UK 2009 forecast was revised down by 1.2 percentage points.

This picture is broadly reflected across the advanced economies as the full force of the fallout from the financial crisis in September and October is now seen. Of all the advanced economies, the IMF expects only Canada will have positive growth in 2009, with all the other economies experiencing recession for much of 2009.
IMF GDP Forecasts for 2009

The downward revisions to the IMF growth forecasts have been particularly evident for 2009. This chart highlights how the forecasts for the US, UK and the Euro Area for 2009 have been revised down over the course of this year, with the latest forecasts suggesting that the US, UK and the Euro Area will all experience negative growth in 2009.

Since January 2008, the UK forecast for 2009 has been revised downwards from 2.4% to -1.3%; the US forecast from 1.8% to -0.7%; and the Euro area forecast from 1.9% to -0.5%.

World markets

One reflection of this significant slowdown has been the behaviour of the world’s markets in which massive losses have been recorded over the course of the year as expectation of future growth and future profitability have been sharply revised down.
The Response to Global Slowdown

The response to the credit crunch and particularly the emergence of serious recessionary global trends has been widespread with most economies taking significant steps to counter the financial instability and the significant declines in confidence and demand.

Four responses have broadly been seen: financial sector stabilisation packages (as noted above); steps to reassess the regulatory frameworks around the financial sector, both at the national and international levels; monetary policy and particularly interest rate policy, at times coordinated across the major advanced economies in order to maximise the collective impact of the measures; and fiscal policy to provide a stimulus to the demand of both the corporate and households sectors – of which the most recent example is the UK Pre-Budget measures announced on November 24th (see below).

With respect to monetary policy, the US was the first to cut rates from a peak of 5.25% in September 2007, followed by the UK cut in December 2007 from a peak of 5.75%. The ECB only reduced rates in October this year, having increased rates in the light of inflationary fears as late as June this year.

There was an internationally co-ordinated cut in interest rates on the 8th October by central banks in order to help stimulate future growth. Since then, further reductions in interest rates have been made, leaving interest rates at 2% in the UK, 1% in the US, 2.5% in the Euro Area and 0.3% in Japan.
UK interest rates during this and previous recessions

With the prospect of the UK economy falling into recession, it is instructive to consider the level of interest rates during previous recessions. This chart highlights that interest rates in the UK are at considerably lower levels than during previous recessions (such as the early 1980s and 1990s). Given current rates of inflation, the “real” rate of interest in the UK (i.e. the base rate adjusted for consumer price inflation) is now sharply negative, although this is likely to be short-lived as inflation turns sharply downwards.

Despite interest rates being cut, it is important to recognise that the financial crisis has affected the traditional mechanism through which monetary policy can support the economy. It is apparent to date that the reductions in the base rate by the Bank of England have not been fully passed on by commercial banks to households and businesses, despite efforts by the UK Government to encourage such action and the easing of access to credit more generally. It is this relatively low level of responsiveness that has led to further action being required to help support the economy during this downturn.

The continuing relative movements of the base rate and LIBOR illustrate the weaker link from monetary policy to the credit experience of both households and businesses.
Inflationary Pressures Recede

Inflation rose sharply through the first half of 2008, driven by the sharp rise in commodity prices such as oil and food (see below). However, with the price of commodities falling in recent months – precipitated by the anticipated substantial decline in demand as the global recession begins to materialise and the emergence of excess capacity in the global economy - inflation is expected to fall sharply.

The latest forecasts by the Bank of England in their Inflation Report for November 2008 suggest that CPI inflation will fall to 1% by the end of 2009, and that there is a possibility that inflation could fall below zero (i.e. deflation), to which we return later.
Developments in the UK

Conditions in the UK economy have deteriorated significantly in the second half of 2008, as the impact of the credit crunch and the financial crisis has intensified and started to feed through to impact upon the real economy.

After zero growth in Q2 2008, UK GDP in Q3 2008 contracted by 0.5% on the previous quarter, the first time in over 16 years that the output of the UK economy has contracted. This decline was in both the production and service sectors. Negative growth is expected to continue into the final quarter of 2008 – and beyond - confirming that the UK is in recession.

The slowdown in the UK economy has led to a deterioration in the labour market, with employment down 53,000 and unemployment up 182,000 over the past year.

The performance of the UK economy is important for Scotland, as the UK remains our main trading partner, accounting for approximately two-thirds of Scottish exports. Consequently, we would expect to see some of this weakness reflected in the performance of the Scottish economy in the coming months.
Latest Bank of England Forecasts

Conditions in the UK economy have deteriorated significantly in recent months, as the credit crunch intensified. This has affected the future prospects of the UK economy, which is now expected to fall into recession before the end of 2008.

The change in economic conditions is highlighted in the revisions that the Bank of England have made to their GDP forecasts for the UK economy. Back in February 2008, they were predicting a mild slowdown, with the central estimate for GDP falling close to 1.5% by the end of 2008 before recovering to 2.0% by mid-2009. However, the latest forecasts released in November 2008 highlight that the Bank of England now expects the slowdown to be considerably more pronounced, with the central estimate for GDP contracting by 2% by the end of 2008 through to the middle of 2009.

The Bank of England are forecasting a V-shaped recovery in the second half of 2009, with GDP forecast to return close to trend by the end of 2010 (2.75%). The timing of such a recovery is, however, necessarily highly uncertain, depending on a number of factors, including the resumption of credit flows to businesses and consumers, the effectiveness of the recent fiscal stimulus and the policy response throughout the global economy.

These forecasts were published in advance of the UK Government’s Pre-Budget Report in November and, therefore, were based on the previous set of spending plans by the UK Government. Consequently, the Bank of England may amend their forecasts in their next Inflation Report due to be published in February 2009, to take into account the UK Government’s fiscal stimulus.
UK Government Forecasts

The UK Government has significantly reduced its growth forecasts since the March 2008 Budget. These have fallen by over one percentage point for each year between 2008 and 2010, and the UK Government now expect the UK economy to contract in Q3 and Q4 of 2008, and Q1 and Q2 of 2009. Inflation is expected to slow rapidly, with CPI falling to 3.75% in Q4 2008, and reaching 0.5% by Q4 2009.

Table: UK GDP Growth (%)

<table>
<thead>
<tr>
<th>Source</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBR 2008</td>
<td>0.75</td>
<td>-1.25 to -0.75</td>
<td>1.5 to 2.0</td>
<td>2.75 to 3.25</td>
</tr>
<tr>
<td>Budget 2008</td>
<td>1.75 to 2.25</td>
<td>2.25 to 2.75</td>
<td>2.5 to 3.0</td>
<td>N/A</td>
</tr>
<tr>
<td>Extent of Revision</td>
<td>1.00 to 1.50</td>
<td>3.00 to 4.00</td>
<td>0.5 to 1.50</td>
<td>N/A</td>
</tr>
<tr>
<td>Consensus Forecast</td>
<td>0.9</td>
<td>-0.9</td>
<td>1.2</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Sources: PBR 2008 and Budget 2008: HM Treasury.

The average of new independent forecasts is consistent with those of the UK Government in 2008-2009, but are more pessimistic about the strength of the recovery in 2010 - 2011.

The Pre-Budget Report announced a fiscal stimulus package amounting to around £20bn, or 1% of GDP. This, along with weaker tax revenues and the rising benefits bill, will push up net UK debt to 57% of GDP by 2013-14, or around £17,000 per person (compared to £8,640 per person in 2007-08). Economic growth in 2009 is forecast to be around ½ a percentage point higher than it would have been in the absence of the stimulus package.

The economic shocks which have hit the UK have affected advanced and developing economies across the world. Treasury forecasts that world GDP growth will slow from 3.5% in 2008 to only 2% in 2009, and that the G7 economies will contract in 2009 for the first time since 1982. These are consistent with recent OECD and IMF forecasts, which expect a marked slowdown across advanced economies.
Business Surveys on the UK

The latest business surveys highlight the weakening in the performance of the UK since Easter, with the slowdown becoming particularly marked in the third quarter of 2008.

For the Purchasing Managers’ Index, the balance of firms in both the manufacturing and service sector report that their output has been falling since Easter, with the falls accelerating in recent months. This follows a downward trend that had its origins around the middle of 2007.

Similarly, the CBI Industrial Trends survey highlights that the majority of manufacturing firms have reported a fall in output (i.e. balance below 0) since June.

These business surveys suggest that the UK economy may experience a sharper contraction in the final quarter of 2008.
Bank of England Inflation Forecast

The outlook for inflation has changed even more rapidly than for GDP, with the Bank of England now expecting the central estimate for inflation to undershoot the UK Government’s target of 2% for CPI inflation by the end of 2009. Indeed, there is now estimated to be a 20% chance of deflation in 2010, as the rate of inflation becomes negative. This contrasts with the forecast only 3 months earlier in August that saw their central estimate only falling below the target 2% in mid-2010 and no perceived threat of deflation.

This is in marked contrast to earlier in the year when the main concern for the Bank of England was that rising inflation, caused by the sharp rise in commodity prices, would feed through into second round effects such as higher wage settlements. These so-called second round effects would then make it more difficult for the Bank of England to bring the rate of inflation back to the 2% target.

To date, there has been little evidence of these second round effects and with the sharp decline in commodity prices in the second half of the year expected to weaken inflationary pressures in the coming months, the Bank of England now judges the risks to inflation as broadly balanced.

This revised forecast for inflation was broadly in line with the UK Government’s latest forecast in the 2008 Pre-Budget Report. Inflation is now expected to slow rapidly, with CPI falling to 3.75% in Q4 2008 and reaching 0.5% by Q4 2009, with a chance of the RPI briefly falling to -2% in Q2 2009.
Net Lending to UK Businesses

Since 2006, the rate of lending to businesses (both large and small) has declined, with this decline accelerating since the start of the credit crunch in mid-August 2007. We can expect to see a further decline in net lending when data become available for the period after the credit crunch intensified at the end of September 2008.

There has also been a significant reduction in the value of net lending to individuals from the beginning of the credit crunch in mid-August 2007. This partly reflects the significant slowdown in the number of new mortgages taken out in the past year.
Demand & Supply of Credit in the UK

The deceleration in the growth of credit can be explained by both a reduction in the availability of credit and the demand for credit. The Bank of England Credit Conditions Survey highlights that the availability of credit to businesses declined from the third quarter of 2007, right at the beginning of the credit crunch. However, the demand for credit has also experienced a similar decline since the beginning of the credit crunch.

Demand & Supply of Credit in Scotland

There is limited data on the availability and demand for credit in Scotland. However, recent business surveys highlight that although it has become more difficult to access credit, the reduction in lending has also been due to a reluctance to borrow due to uncertainty over the economic outlook. Furthermore, the surveys reveal that despite a rise in the cost of borrowing for Scottish businesses, it was concerns over the economic outlook rather than the cost of borrowing which was affecting demand for credit from Scottish businesses.

It is important to recognise that this is not necessarily the case for all businesses in Scotland. There has been anecdotal evidence that when businesses have met with banks for their annual review, overdraft facilities have been reduced and that there has been a reluctance from banks to provide finance for future business investment. Similarly, businesses have reported that the banks have repriced loans closer to the LIBOR rate rather than the Bank of England base rate and that new conditions have been introduced by banks (e.g. charging for businesses not accessing overdraft facilities).
Performance of the Scottish Economy

The first part of this section looks at the recent performance of the Scottish Economy.

The second part considers the prospects for the Scottish Economy.
Key Questions

1. How has the Scottish economy withstood the past few months?
2. What is the evidence of the impact of the financial crisis on the real economy?
3. How might we expect to fare in the coming months?

Key Questions to Address

• how has the Scottish economy *withstood* the past few months (and indeed the last 16 months)?
• what is the evidence of the *impact* of the financial crisis on the *real economy* here?
• how might we *expect to fare* in the coming months?
Assessment of the Current Performance of the Scottish Economy

We can assess the performance of the Scottish economy in terms of two dimensions:

1. the current **level** of performance for key indicators compared to their historical levels and
2. the current **trend** in these key indicators over recent months (i.e. rate of change).

*This table* highlights that the level of a number of key indicators compares favourably to previous performance (particularly in the labour market), but the recent trend has been for flat or a weakening in performance. Further weakening is expected in the coming months, as the pace of the global economic downturn is expected to accelerate.

The rest of this presentation will cover these elements in greater detail, explaining how these views are derived.

---

### ...the evidence of economic downturn

<table>
<thead>
<tr>
<th>Recent expenditures</th>
<th>Current strength?</th>
<th>Current trend?</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>near trend growth rate</td>
<td>weak; flat real terms</td>
</tr>
<tr>
<td>Business activity (PMI)</td>
<td>very weak</td>
<td>recent sharp falls</td>
</tr>
<tr>
<td>Consumption; retail sales</td>
<td>flat (12m)</td>
<td>recent decline</td>
</tr>
<tr>
<td>Government expenditure</td>
<td>low real growth compared to 2000/7</td>
<td>flat</td>
</tr>
<tr>
<td>Exports (manufactures)</td>
<td>flat real growth 2004/8</td>
<td>zero real growth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Labour markets</th>
<th>Current strength?</th>
<th>Current trend?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>very strong</td>
<td>small recent decline</td>
</tr>
<tr>
<td>Unemployment</td>
<td>very strong</td>
<td>larger recent increase</td>
</tr>
<tr>
<td>Inactivity</td>
<td>relatively good</td>
<td>increasing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other indicators</th>
<th>Current strength?</th>
<th>Current trend?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing market: transactions</td>
<td>around half level of a year ago</td>
<td>sharp falls</td>
</tr>
<tr>
<td>Housing market: prices</td>
<td>slightly below peak</td>
<td>falling since August</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future expenditures</th>
<th>Outlook?</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP forecasts</td>
<td>sharp downward revisions: -0.4% to -1.9% (2009)</td>
</tr>
<tr>
<td>Business confidence/opinion</td>
<td>sharp falls; net balance around -66</td>
</tr>
<tr>
<td>Consumption; cos; confidence</td>
<td>sharp falls; net balance around -55</td>
</tr>
<tr>
<td>Government expenditure</td>
<td>weak real growth</td>
</tr>
<tr>
<td>Exports</td>
<td>balance between depreciation and poor world growth</td>
</tr>
</tbody>
</table>
Key Elements of the Economic Assessment

- Scotland’s economic performance is now clearly weakening, reflecting the impact of the financial crisis and credit crunch.

- Earlier in the summer, the economy had demonstrated a certain resilience, notably in some specific sectors. While some areas of the economy continue to remain relatively robust, there has undoubtedly been a more general softening of performance as the financial crisis phase has evolved into a global recessionary phase.

- Financial turbulence has spilled over into the real economy.

- Evidence suggests that economy may have experienced negative growth in Q3 2008 and will see this continue for much of 2009.

- There are now several critical uncertainties:
  - How rapidly the credit crunch is loosened and credit begins to flow;
  - The intensity and length of the emerging global recession;
  - The emerging fears around employment, further contraction of demand throughout the economy, the possibility of deflation.

- Maintaining confidence in the enterprise and household sectors remains a priority in order to minimise the impact of the credit crisis and the associated concerns around demand.

- Emphasising the need to be in a powerful position to respond to the acceleration of economic activity as the downturn recedes is a priority.

The conclusions of the following analysis are summarised here.
In this section, we look at the underlying evidence that relates to the recent economic performance of the Scottish economy.

In particular, we analyse the performance of:

1. GDP
2. Business activity (PMI Survey)
3. Consumption: retail sales
4. Housing market: transactions and prices
5. Government expenditure
6. Exports

…and the labour market data for:

1. Employment
2. Unemployment
3. Inactivity
GDP Growth

This chart shows both Scottish and UK annual GDP growth on a four-quarters-on-four-quarters basis. The latest data available for Scotland relate to Q2 2008, where there was growth of 0.1% over the previous quarter and 1.8% over the previous year. This compares to growth in Q2 2008 for the UK of 0% over the previous quarter and 2.5% over the year.

The second estimate for UK GDP in Q3 2008 indicates that the UK economy contracted by 0.5% compared to the previous quarter, the first time in more than 16 years the UK economy has shrunk. Over the year to Q3 2008, the UK economy grew by 1.8%.

Annual growth rates in Scotland have slowed since the last quarter of 2006, although they have remained relatively stable in recent quarters. Notably, the quarter-on-quarter growth rates for Scotland over the past three quarters have exceeded those for the UK in aggregate.

It is instructive to see these recent short-term trends in the context of the longer term growth trends of the Scottish economy.

<table>
<thead>
<tr>
<th>Growth %</th>
<th>Scotland</th>
<th>UK</th>
<th>Small EU Countries</th>
<th>G7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly Change 2008Q1 to 2008Q2</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Annual Change 2006 to 2007</td>
<td>1.8%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>5 year average p.a. 2002-2007</td>
<td>2.1%</td>
<td>2.7%</td>
<td>2.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td>10 year average p.a. 1997-2007</td>
<td>2.0%</td>
<td>2.9%</td>
<td>3.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>30 year average p.a. 1977-2007</td>
<td>1.9%</td>
<td>2.4%</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
Breakdown of Scottish & UK GDP Growth

**Annual growth.** Sector by sector comparisons with the UK show a significant divergence in the construction and production sectors over the course of the past year.

In the second quarter of 2008, the service sector grew by 3.0% over the year, with both the production and construction sectors experiencing a fall in output of 0.8% and 3.7% respectively. For the UK, the service sector grew by 3.1% over the year. Whilst output contracted in the production and construction sectors in Scotland, these sectors in the UK as a whole experienced growth of 0.2% and 2.8% over the year.

**Quarterly growth.** Quarter-on-quarter GDP comparisons between the UK and Scotland show a degree of convergence with a Scottish growth rate only marginally above that of the UK in Q2 2008: that is, Scottish growth of 0.1% compared to UK zero growth.

Both the production and service sectors of the Scottish economy expanded, with growth of 0.2% and 0.1% respectively. In the UK, the production sector experienced a sharp decline in output of 0.7% in Q2 2008 on the previous quarter, although the service sector still recorded growth of 0.2%.
Official GDP statistics on the Scottish economy are only available with a short lag. Consequently, the Scottish Government monitors the various backward-looking business surveys which provide an indication of recent economic performance.

The chart highlights the Purchasing Managers’ Index for Scotland and the UK (where less than 50 represents a contraction and more than 50 represents an expansion in private sector output). The survey highlights that, from April 2008 onwards, the balance of private sector firms in Scotland have reported a fall in output, with the manufacturing sector index falling to 43.0 in October and the service sector index falling to 38.3, and the pace of this decline accelerating in recent months. This has been broadly in line with the PMI survey for the UK.

Other business surveys – including the CBI Survey and the Lloyds TSB survey - report a similar decline in private sector output in the Scottish economy, with this slowdown gathering pace in the third quarter of 2008. Therefore, it would be anticipated that the GDP figures for Q3 2008 would show weaker growth than in Q2 2008, where GDP rose by only 0.1% on the previous quarter.
Retail Sales

The Scottish Retail Consortium Retail Sales Monitor suggests that retail sales have stood up well in Scotland compared to the rest of the UK over the past few years.

These sales figures are recorded in nominal terms and, consequently, given the general rise in prices over the past year, the retail sales growth for Scotland in real terms has been considerably lower. Indeed, the latest figures indicate that Scottish retail sales declined in real terms (i.e. adjusting for inflation) in the year to October.

However, the Scottish Retail Sales Monitor reports that the Scottish figures have been above the UK level by around 3% every year since the series began in 1999. Therefore, we need to treat this series with caution, particularly as the latest Scottish GfK consumer confidence indicator casts doubt on the strong retail sales figures, as consumer confidence has declined sharply from the second quarter onwards this year.

Furthermore, the Scottish Chamber of Commerce Business Survey reports that actual sales by retail distributors has declined since the start of 2008, with the rate of decline accelerating in Q3 2008.
House Prices

The graph illustrates clearly the more rapid growth of UK house prices over the 1996-2003 period compared to those in Scotland, reflecting the familiar pattern of earlier cycles. From 2003, as UK price increases declined sharply, Scottish price increases exceeded those in the South.

Notwithstanding the decreasing growth rate until the middle of the year in Scotland, house prices appeared relatively resilient. However, since then, there is evidence of house prices declining in Scotland over the year.

After revising their data downwards, the Department for Communities and Local Government now note that August was the month when annual house price changes first became negative in Scotland (-0.2%), followed by an annual price fall of 0.8% in September.

However, house prices are falling less rapidly than the UK as a whole. The HBOS seasonally adjusted index for Q3 08 show Scottish prices have fallen by 6% over the year to September compared to a decline of 12.4% in the UK. The Nationwide seasonally adjusted index shows year-on-year price declines of 7% in Scotland and 10.2% in the UK.

Both Scotland and the UK have experienced a significant slowdown in housing market activity. The number of mortgages for house purchase, a proxy for housing market activity, is reported to be down by 47% in both Scotland in Q3 2008 compared to a year earlier according to the Council for Mortgage Lenders. The equivalent figure for the UK was a reduction of 57% over the year to Q3 2008.
Affordability of Housing

Assessing the scale of the re-adjustment that is likely to be seen over the next year or so in the housing market is particularly problematic. Certainly, there is evidence that prices are significantly above trend, but it is difficult to assess how far they are now likely to decline.

One important indicator that reflects the degree of disequilibrium is the house price to earnings ratio that provides a proxy for the general affordability of housing. Over the 1983 to 2000 period, there was – with the exception of the 1989-91 period – evidence to suggest that the trend ratio in Scotland and the UK was in the range of 3 to 3.5. This ratio rose sharply in Scotland from 2001 onwards, appearing to peak towards the end of 2007 at around 4.7, but still remained significantly below the house price ratio for the whole of the UK that peaked a little sooner at around 5.7, partly because of lower overall growth in house prices in Scotland.

This analysis has therefore suggested that the greater affordability of housing in Scotland relative to the whole of the UK – reflected in this lower ratio – will lead to a smaller readjustment in Scotland and a consequent smaller fall in house prices compared to the UK.
Scottish Budgetary Expenditure

It is clear that the UK fiscal position is being impacted by events in the economy. With sharply falling revenues and rising expenditures, the fragility of the fiscal accounts will become more apparent.

The most recently available public finance data show that UK government borrowing over the first seven months of 2008/09 was £37.0 billion, 84.4% higher than in the same period last year.

In the 2008 Pre-Budget report, the Chancellor highlighted a significant deterioration in the UK public finances due to the impact of the global economic slowdown. This led to the suspension of the Fiscal Rules, with the introduction of a new temporary operating rule to cover the period of the global economic slowdown, enabling the UK Government to introduce expansionary fiscal policies to support the economy.

The impact of this extreme weakness in the UK finances is that the 2010-11 finances will come under particular pressure, with the UK Government announcing in the Pre-Budget Report higher efficiency savings of £5bn for 2010-11. This could result in the Scottish budget being cut by up to £500m.

For the three year period 2011/12 to 2013/14, total UK spending is estimated to grow at 1.1% per annum in real terms. Were Scottish public expenditures to grow at a similar rate, then we would see 6 years of real terms growth of around 1%.
From 1995 to 2000, the index of manufactured exports for Scotland exhibited a period of strong growth – 1.9% average quarterly growth - which was followed by a sustained period of decline from the end of 2000 to 2004.

This growth and decline in manufacturing exports is largely explained by the electrical and instrument engineering (E&IE) sector which grew by 96% between 1995 and 2000 and fell by 66% between the end of 2000 and 2004.

Since 2005, there has been modest trend growth in manufactured export sales. The most recent data for Q2 2008 highlight that, after strong growth in the previous quarter, Scottish manufactured export sales remained static in real terms compared to the previous quarter and fell by 0.1% over the year.

More timely data on manufactured exports can be found in business surveys, which are published before official figures are released, and therefore give us a good indication of what we can expect. The latest CBI Scotland Industrial Trends survey (released on 21 October) showed that the volume of export orders falling significantly since Q3 2007, with most businesses reporting a reduction in exports in Q2 08 and no change in Q3 08. Expectations for the coming months are for further falls. The Scottish Engineering Quarterly Review reported in their September report that export orders for the preceding three months had been negative.

The recent and ongoing depreciation of sterling may partly offset this decline, although, with many of our key markets in recession, the levels of demand will of course be very subdued. We are yet to see evidence of how this will affect exports.
Employment Rate

The Scottish labour market has demonstrated considerable strength for some time and remains buoyant relative to both historical standards and relative to most countries and regions of the EU. It has, however, displayed recent signs of weakening.

The chart shows that, at its peak in 2007, the employment rate in Scotland attained over 77% compared with 74.9% in the UK. Although the employment rate has since fallen to 76.3% in the July-September quarter, it remains historically high.

The Scottish rate remains consistently above the employment rate in the UK (74.4% in July-September) and other parts of Europe. The rate in Scotland exceeded that of the UK for the first time in mid-2003 and a gap of around 1.9 percentage points has since been maintained.

The most recent data show employment at 2,451,000 with a fall in employment of 6,000 quarter-on-quarter and 4,000 year-on-year. The UK employment declined by 100,000 over the quarter but increased by 53,000 over the year and now stands at 28,082,000.

In terms of sectoral analysis, June data show that the construction and manufacturing sectors have seen the greatest falls in employment over the year, falling by 6.3% and 2.4%. Distribution, Transport, Finance & Business Services and Education, Health, Public Admin & Other Sectors are the two largest sectors in terms of the number of employees. Both these sectors experienced growth in the year up till June 2008.

Business surveys, which give indications for staffing levels over Q3 08, show a decline in staffing levels across most sectors. We will expect this to be reflected, to some degree, in official figures for this quarter.
Unemployment Rate

The unemployment component of the Scottish labour market has equally demonstrated considerable strength over recent years and also remains low relative to both historical standards and relative to most countries and regions of the EU. It too has, however, displayed recent signs of weakening.

This chart shows that the Scottish ILO unemployment rate has recently risen from a trough of 4% in mid 2008 to 4.7% in the July-September quarter, with an additional 13,000 unemployed people compared to the previous quarter. Over the year, unemployment in Scotland is down 4,000 and now stands at 126,000.

Despite the recent increase in unemployment, the unemployment rate in Scotland still remains significantly below the rate for the whole of the UK (5.8% in the July–September quarter) and many other advanced economies.

When looking at the alternative measure of unemployment, the Claimant Count, we see that the Scottish rate is marginally higher than the UK (3.1% compared to 3% for October).

Economic Inactivity

The deterioration in conditions in the Scottish labour market has led to an increase in the number of people leaving the labour market, with the number of people economically inactive rising by 15,000 over the year to July-September 2008.
Future Prospects for the Scottish Economy

Having covered recent developments in the Scottish economy, we now turn to prospects for the Scottish economy over the coming years.

In this section, we look at the underlying evidence that relates to the recent economic performance of the Scottish economy.

In particular, we analyse the performance of:

1. GDP
2. Business optimism
3. Consumption confidence
4. Employment

In summary, the business surveys now point strongly and consistently to lower growth and reduced business optimism across most sectors in the second half of 2008 and into 2009.

This deterioration in conditions in the Scottish economy has fed through into the recently published forecasts for the Scottish economy that post-date the financial crisis in September/October. They suggest significantly weaker growth for 2008 and 2009.
Independent Forecasts for the Scottish Economy

The latest independent forecasts predict that the Scottish economy will contract by between 0.4% and 1.9% in 2009.

There is conflicting evidence from the forecasts on whether Scotland will be hit harder than the UK economy by the economic slowdown. It has been suggested by Fraser of Allander and Experian that Scotland will experience a sharper contraction than the whole of the UK, unlike the pattern of previous strong downturns and recessions. This is based on the assumption that the decline in the financial services sector will be felt more strongly in Scotland than in the rest of the UK. However, the Scottish ITEM Club have taken the view that Scotland will not be as badly affected as the UK as a whole.

All forecasters recognise that there is still a significant degree of uncertainty over the length and depth of the global economic slowdown. Therefore, it is possible these forecasts may change in the coming months. As with the UK forecasters, the size and nature of the exogenous financial shock in September presents a challenge to the robustness and accuracy of economic models and forecasts are therefore necessarily somewhat more uncertain.

However, all the latest forecasters agree that Scotland will exhibit negative growth in 2009 and the results of the forecasts are broadly supported by the latest forward-looking business surveys. These indicate that confidence in Scotland is continuing to fall due to uncertainty over the current global economic slowdown and the impact of the international financial crisis.
Forecasts For Scottish GDP growth

The latest independent forecasts of Scottish GDP growth predict average growth of 0.5% in 2008 and a decline of 1.1% in 2009. This compares to the latest estimates of these same forecasters of UK GDP growth of 1.0% in 2008 and a decline of 1% in 2009.

All forecasters have acknowledged the uncertainty in which they are forecasting, with many giving alternative ‘worst case’ forecasts, that show Scotland suffering a deeper recession. These forecasts are built on assumptions that the problems in the financial sector will be worse than they have anticipated.
Scottish & UK GDP Growth During Previous Recessions

It is instructive to consider the present anticipated downturn in the context of previous recessions in Scotland and the UK. As the chart illustrates, previous recessions have been more severe in the UK compared to Scotland. Many reasons have been cited for this, including the greater importance of the public sector in Scotland which acts to insulate the economy from a downturn in private sector activity.

Downturns over the past 35 years have involved substantial declines in manufacturing output. Current evidence from business surveys, in particular the PMI, indicates that at the present time, the service sector is declining at a faster rate than the manufacturing sector, suggesting that this downturn may look very different compared to those in recent history.

The recession of the early 1990s, the last major slowdown in the UK economy, hit London and the South East particularly badly. Scotland fared well in this recession because of a much stronger performance from private services than in the rest of the UK. Scotland only experienced one quarter of negative growth in this downturn, implying that it did not technically enter recession.

It is important to recognise that each recession is unique and therefore we cannot presume that Scotland will always fare better during economic downturns than the whole of the UK.

Although Scotland will benefit from its large public sector, and may see less of a decline in the housing sector due to lower ownership rates and higher affordability, the economy is heavily exposed to financial and related services, suggesting that it is unlikely that Scotland will avoid recession during this cycle.
Business Optimism

Since the start of the 2008, there has been a general deterioration in business optimism reported in the various forward-looking business surveys. This chart highlights the deterioration in optimism reported in the Scottish Chambers Business Survey, the CBI Industrial Trends Survey and the Scottish Engineering Quarterly Review.

This decline in optimism is reflected in the employment data from business surveys, with a number reporting a decline in employment over Q3 08. The PMI for October reported that staffing levels had declined at the fastest rate since the survey began.

Scottish Engineering was the only survey to report an increase in employment numbers over the third quarter of 2008.
Consumer Confidence

The forward-looking surveys that look at consumer confidence equally reflect the sharp deterioration in consumer confidence since 2003. A net balance of below zero in the chart indicates that more people are pessimistic about the future of the economy than are optimistic.

Between 2003 and the third quarter of 2007, the surveys recorded consumer confidence as remaining fairly stable at between 0 and minus 5. Since the end of 2007, however, consumer confidence has seen huge falls, with the net balances recorded at between minus 35 to minus 40.
## Assessment of the Current Performance of the Scottish Economy

As noted earlier, the analysis above leads to the conclusions that are summarised in the frame above.

We have assessed the performance of the Scottish economy in terms of two dimensions:

1. the current **level** of performance for key indicators compared to their historical levels and
2. the current **trend** in these key indicators over recent months (i.e. rate of change).
Economic Assessment

Summary
Economic Assessment: summary

- Scotland’s economic performance is now clearly weakening, reflecting the impact of the financial crisis and credit crunch.
- Earlier in the summer, the economy had demonstrated a certain resilience, notably in some specific sectors. While some areas of the economy continue to remain relatively robust, there has undoubtedly been a more general softening of performance as the financial crisis phase has evolved into the global recessionary phase.
- Financial turbulence has spilled over into the real economy.
- Evidence suggests that economy may have experienced negative growth in Q3 2008 and will see this continue for much of 2009.
- The critical uncertainties now are:
  - How rapidly the credit crunch is loosened and credit begins to flow
  - The intensity and length of the emerging global recession
  - The emerging fears around employment, further contraction of demand throughout the economy, the possibility of deflation
- Maintaining confidence in the enterprise and household sectors remains a priority in order to minimise the impact of the credit crisis and the associated concerns around demand.
- Emphasising the need to be in a powerful position to respond to the acceleration of economic activity as the downturn recedes is a priority.

On the basis of the evidence provided in this analysis of the recent trends in the expenditure data and the labour market data – both from official sources and from the backward-looking business survey evidence – and from the forward-looking survey evidence and the work of the independent forecasters, we can draw a series of conclusions with respect to the current strength and prospects of the Scottish economy.

These are set out in the frame above:

- Scotland’s economic performance is now clearly weakening, reflecting the impact of the financial crisis and credit crunch.
- Earlier in the summer, the economy had demonstrated a certain resilience, notably in some specific sectors. While some areas of the economy continue to remain relatively robust, there has undoubtedly been a more general softening of performance as the financial crisis phase has evolved into the global recessionary phase.
- Financial turbulence has spilled over into the real economy.
- Evidence suggests that economy may have experienced negative growth in Q3 2008 and will see this continue for much of 2009.
- The critical uncertainties now are:
  - How rapidly the credit crunch is loosened and credit begins to flow
  - The intensity and length of the emerging global recession
  - The emerging fears around employment, further contraction of demand throughout the economy, the possibility of deflation
- Maintaining confidence in the enterprise and household sectors remains a priority in order to minimise the impact of the credit crisis and the associated concerns around demand.
- Emphasising the need to be in a powerful position to respond to the acceleration of economic activity as the downturn recedes is a priority.
State of the Economy

Dr. Andrew Goudie
Chief Economic Adviser
December 4, 2008

It is intended that this document should be the first in a series of assessments of the State of the Economy disseminated in this way. All feedback or comments would be warmly welcomed.

Contact: Office of the Chief Economic Adviser
St Andrew’s House
Regent Road
Edinburgh
Tel. 0131 2443474
WebGroup@scotland.gsi.gov.uk
The Scottish Government’s Response to the First Annual Report of the Council of Economic Advisers

15 January 2009
The Scottish Government’s Response to the First Annual Report of the Council of Economic Advisers

The Scottish Government, 2009
**CONTENTS**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>v</td>
</tr>
<tr>
<td>The Scottish Economic Recovery Programme</td>
<td>1</td>
</tr>
<tr>
<td>Re-shaping our capital spending plans</td>
<td>1</td>
</tr>
<tr>
<td>Ensuring all government activity, including planning and regulation,</td>
<td>2</td>
</tr>
<tr>
<td>supports economic development</td>
<td></td>
</tr>
<tr>
<td>Intensifying our activity and support for Homecoming 2009,</td>
<td>2</td>
</tr>
<tr>
<td>to boost tourism</td>
<td></td>
</tr>
<tr>
<td>Intensifying our work around fuel poverty and energy efficiency</td>
<td>3</td>
</tr>
<tr>
<td>Increasing advice and support to businesses and individuals</td>
<td>3</td>
</tr>
<tr>
<td>Improving financial advice and support to individuals</td>
<td>4</td>
</tr>
<tr>
<td>The Scottish Government’s Response to the Recommendations and Considerations</td>
<td>5</td>
</tr>
<tr>
<td>Improving the Productivity of the Scottish Economy</td>
<td>5</td>
</tr>
<tr>
<td>Achieving Scotland’s 2011 Growth Target</td>
<td>8</td>
</tr>
<tr>
<td>Achieving Scotland’s 2011 Emissions Target</td>
<td>11</td>
</tr>
<tr>
<td>Addressing Economic Inactivity in Scotland</td>
<td>12</td>
</tr>
<tr>
<td>Planning</td>
<td>16</td>
</tr>
<tr>
<td>Education and Skills</td>
<td>17</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>21</td>
</tr>
<tr>
<td>Scottish Economic Statistics</td>
<td>23</td>
</tr>
</tbody>
</table>
FOREWORD

I am pleased to introduce the Scottish Government’s response to the First Annual Report of the Scottish Council of Economic Advisers.

In normal economic conditions, the Report would be an important tool for the Scottish Government. In these challenging economic times, it is all the more valuable.

As Scotland’s government our responsibility is to prioritise action that, in the short term, mitigates the impact of the downturn while shaping policy that, in the longer term, ensures Scotland not only recovers, but emerges stronger and in a more competitive position in the global marketplace. Our focus remains clear – protecting jobs and businesses today and ensuring greater prosperity for families and communities across Scotland in the future. The Council’s analysis and advice is central to our delivery of this ambition.

Consequently, the Scottish Government has considered all recommendations and considerations set out in the Report covering:

- Improving the Productivity of the Scottish Economy;
- Achieving Scotland’s 2011 Growth Target;
- Achieving Scotland’s 2011 Emissions Target;
- Addressing Economic Inactivity in Scotland;
- Planning;
- Education and Skills;
- Infrastructure; and
- Scottish Economic Statistics.

We agree with the Council’s analysis of the current severe economic pressures and in response we have set out some of the measures we are taking as part of the Scottish Government’s economic recovery programme.

We also respond to each of the specific recommendations and considerations made by the Council. In many cases action is already being taken and in others action plans are being drawn up. We are constantly striving to do more and explore new options and will continue to report on the progress that has been made in these areas at future Council meetings.

I would like to thank the Council for the tremendous amount of work it has undertaken over the last year. The commitment of individual members has helped raise the quality of debate, level of analysis and exchange of views on how best to achieve an increase in sustainable economic growth in Scotland.
It is clear from this response how seriously the Scottish Government has taken the recommendations and considerations presented in the Council’s First Annual Report. I have no doubt that this and future Annual Reports from the Council will be instrumental in helping us deliver the targets as set out in the Government Economic Strategy and, ultimately, the Purpose of this Government – a more successful Scotland, with opportunities for all to flourish, through increasing sustainable economic growth.

The Rt Hon Alex Salmond MSP MP
The First Minister of Scotland
THE SCOTTISH ECONOMIC RECOVERY PROGRAMME

The Purpose of this Government has been clear from our first day in office: to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The challenges we face now make that task more difficult and, accordingly, we must intensify our efforts to help every individual and business weather the global economic storm and continue on course to this essential, long-term goal.

Over the past 20 months, the Scottish Government has taken a number of actions that will benefit the Scottish economy in these difficult times. Through our Scottish Budget and our Government Economic Strategy,¹ we have set the correct direction for Scotland and focused the investment of over £30 billion of public funds each year to supporting increased sustainable economic growth. We have eased the pressure on tight household budgets through working with local government to freeze the council tax. We have slashed rates bills for thousands of small businesses, relieving them of a substantial tax burden. Moreover, through our unique partnership with local government, embodied in the historic Concordat we agreed in November 2007, local authorities now have greater flexibility to promote and sustain economic recovery at a local level.

We believe that governments must do everything within their power to lessen the impact on households and businesses and encourage the investment and development that will help drive an economic recovery. To that end, we introduced a six-point programme of economic recovery to boost Scotland’s economy, designed to focus all our powers and resources on protecting households and businesses and ensuring Scotland is well placed to face the current economic difficulties. Examples of the actions we are taking under each of the six points of the programme are given below. We will continue to review and explore new actions we can take to support the Scottish economy.

Re-shaping our capital spending plans

1. The Budget Bill for 2009-10 sets out our proposals to accelerate £227 million of capital spending into 2009-10, on top of £30 million in 2008-09. In total, this accelerated investment will support nearly 4,700 jobs in the Scottish economy over the next 15 months.
   - Local authorities are investing £90 million in 2009-10 which will accelerate a range of capital spending programmes spread across Scotland. COSLA will be providing details of the projects shortly.
   - Colleges and universities will benefit from £13 million of infrastructure improvements.
   - We are investing £29 million next year to deliver road improvements and enhanced park-and-ride facilities to cut congestion.
   - Scottish Enterprise will accelerate £30 million of investment in key projects that will deliver wider benefits to the economies of Glasgow, Edinburgh and other areas including investment in the Edinburgh Bio-Quarter, the SECC in Glasgow and Fife Energy Park.

¹ http://www.scotland.gov.uk/Publications/2007/11/12115041/0
We are accelerating the supply of affordable housing by bringing forward £120 million of our planned spending from 2010-11 for the Affordable Housing Investment Programme, in conjunction with local government, to help support the house-building industry over the next two years.

Through the Scottish Futures Trust, we are fast-tracking the Hub Initiative, which will deliver improved local community-based infrastructure in support of the delivery of local services across Scotland, and supporting local authorities’ school investment programmes.

We are providing over £30 million to the Home Owners Support Fund to build on the existing ‘mortgage-to-rent’ scheme and a further £25 million to local government to kick-start a new generation of council house-building.

Ensuring all government activity, including planning and regulation, supports economic development

We are opening up opportunities for more small and medium-sized Scottish businesses to win government contracts through a new online contracts portal. Over 11,000 contract notices have already been published and over 16,000 suppliers have registered.

We are intensifying our reforms to simplify the planning system. As part of this, we are putting in place a £10.5 million e-Planning initiative this spring to allow for faster, more effective online submission of planning proposals.

We are committed to paying the Scottish Government’s business suppliers within 10 days and are urging the rest of the public sector in Scotland to do likewise.

We are making sure that agricultural support to crofters and farmers is paid as soon as permissible by law and we are influencing EU regulations to meet the needs of fishing and farming.

Through the Public Services Reform Bill, we are identifying across the Scottish public sector the scope for removing regulatory burdens on business.

We are ensuring key skills and learning bodies work together to focus their activities on creating the skills required for economic recovery.

We are working with our public bodies – including the Scottish Funding Council and the Scottish Environment Protection Agency – to ensure their operations and funding approach supports economic recovery.

Intensifying our activity and support for Homecoming 2009, to boost tourism

Over 300 events are taking place across Scotland this year from Burns Night to St Andrew’s Day.

We have a target of an eightfold return on investment generating an anticipated additional £40 million in tourism revenue. Our target of 100,000 additional visitors is already expected to be exceeded.

VisitScotland is bringing forward £1.5 million within 2008-09 from its marketing budget to capitalise on Scotland’s attractiveness as a holiday destination due to the weakness of pound sterling.

Nearly 140,000 US households with Scots ancestry have received an invitation to come home in 2009, through VisitScotland’s biggest ever mailshot campaign in the US.
Our Caledonia TV advert featuring a range of famous Scots has already been seen by more than 60% of the Scottish adult population and will be shown in key markets internationally.

Through our sponsorship deal with the Scottish Football Association, the Scottish Homecoming Cup is promoting Homecoming 2009 to a huge global audience (4 million people across 40 countries watched the Scottish Cup in 2007).

The final stage of the World Rally Championship is coming to Scotland as part of the Homecoming programme, bringing an estimated 30,000 visitors.

Intensifying our work around fuel poverty and energy efficiency

- We have announced an Energy Assistance Package to support household energy efficiency, including increased spending on the Central Heating Programme of £10 million.
- We have invested £2 million in our small business loans scheme to help more small businesses with interest-free loans to cut fuel bills.
- In autumn 2008, we launched a new 'Save Money, Save the Planet' energy efficiency advertising campaign designed to save households £340 every year.
- We are taking forward a single national contract for the bulk purchasing of electricity across the public sector which is expected to result in annual savings of up to £5 million.
- We are setting out our strategy for increasing spend in Scotland on energy efficiency through the Carbon Emissions Reduction Target initiative.
- We are bringing together spending on fuel poverty and renewable generation to maximise the impact of government spending to deliver improved energy efficiency and sustainable, low cost energy for thousands of Scottish households.

Increasing advice and support to businesses and individuals

- To date, we have announced almost £200 million of support for 300 projects nationwide from our European Structural Funds programmes. This includes accelerated funding of £55 million for Community Planning Partnerships to support employability projects across Scotland. We are also pressing ahead with funding for key economic development projects in rural and coastal areas through the Scotland Rural Development Programme and the European Fisheries Fund.
- We are proposing to expand the Small Business Bonus Scheme by increasing the level of relief available by 25% from April 2009.
- We are strengthening our Partnership Action for Continuing Employment initiative to ensure the delivery of a high level of responsiveness to businesses and individuals facing redundancy. As part of this, Skills Development Scotland will work with Jobcentre Plus to create a seamless service between skills development and employability support to minimise the time people affected by redundancy are out of work.
- Scottish Enterprise is doubling the size of the Scottish Manufacturing Advisory Service.
- We are working with Scotland Food and Drink and other agencies to provide enhanced support to help businesses in the food and drink sector exploit export opportunities.
- We have extended the eligibility for small businesses to apply for Regional Selective Assistance grants across the whole of Scotland.
We are taking forward 16+ Learning Choices in order to maintain young people in learning after the age of 16 and help secure their longer-term employability.

Following the publication of New Horizons² we are working with the university sector to ensure that their activities support sustainable economic growth.

Scottish Enterprise and Highlands and Islands Enterprise have undertaken comprehensive business reviews with more than 2,000 of Scotland’s major employers and growth companies, resulting in individually tailored action plans.

Scottish Development International is enabling companies to participate in the Scottish pavilions at major trade shows at minimal up-front cost, allowing more Scottish businesses to access new markets overseas.

Improving financial advice and support to individuals

- We have expanded the open market shared equity scheme for first-time buyers nationwide and increased spending to £60 million.
- We are making available a further £70 million to allow local authorities to freeze the council tax again in 2009-10. This will mean Scottish families sharing in a £420 million tax saving over three years.
- We are extending free school meals to include children from families entitled to working families tax credit from August 2009, benefiting around 44,000 pupils.
- We are providing an extra £3 million for legal advice and representation for people facing repossession and other debt problems, providing an additional £1 million to fund face-to-face guidance for individuals.
- We are investing £7.5 million over the next two years in a range of measures to support Achieving Our Potential,³ our anti-poverty framework, including help for individuals to maximise their income.
- We have launched a campaign to promote the National Debtline service to help individuals at risk of financial difficulties and debt problems and raise awareness of advice services and financial support.

This investment in the short-term resilience of the Scottish economy is matched by the actions the Scottish Government is taking to respond to the Council’s specific advice on the long-term direction of travel for the Scottish economy and the more strategic interventions it sets out in its Report.

---


THE SCOTTISH GOVERNMENT’S RESPONSE TO THE RECOMMENDATIONS AND CONSIDERATIONS

The Scottish Government has considered all recommendations and considerations presented in the First Annual Report of the Scottish Council of Economic Advisers.4 Our response to each recommendation and consideration is set out below.

Improving the Productivity of the Scottish Economy

Recommendation 1: The Council recommends that the Scottish Government increases the general level of productivity in the workforce, especially through skills and training, and the share of high productivity firms and industries in national output.

Scottish Government Response: Accept. The Scottish Government strongly supports this recommendation. The Government Economic Strategy recognises that increased productivity will be at the heart of increasing sustainable economic growth in Scotland which is why we have set a long-term target for Scotland to rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.

There has been substantial activity in this area. The Scottish Government published Skills for Scotland5 in the summer of 2007, setting out an approach to investing in skills that was widely welcomed by the business community and trade unions. Skills Development Scotland was established in 2008, bringing together public effort in this area and improving the focus of our investment.

To engage the wider business community and promote an increase in the general level of productivity in the workforce, we have recently established a Skills Utilisation Leadership Group. This is a key part of our social partnership approach to this issue, bringing together public bodies, trade unions and the business community to identify the right solutions for Scotland and ensure the lessons are shared throughout the economy.

We are aware that the Council is undertaking further analysis on productivity with a view to providing the Scottish Government with more specific recommendations on how to help achieve the 2017 Purpose target on productivity. We look forward to hearing the Council’s views, particularly on how best to direct skills utilisation activity towards increasing the general level of productivity and increasing the share of high productivity firms and industries in national output.

Recommendation 2: The Council recommends that the Scottish Government further encourages the development of key industries and sectors, and facilitates the formation of clusters with external economies of scale, critical mass for skills and specialised industries.

4 http://www.scotland.gov.uk/Publications/2008/12/04092147/0
5 http://www.scotland.gov.uk/Publications/2007/09/06091114/0
Scottish Government Response: Accept. The Scottish Government welcomes the Council’s endorsement of the approach taken in the Government Economic Strategy of giving particular attention to key sectors with high growth potential and the capacity to boost productivity.

Scottish Enterprise takes a lead role in promoting key sectors and works through a number of Industry Advisory Groups helping to channel the views of industry experts to the Scottish Government.

The Scottish Government welcomes the fact that the Council will be reviewing each of the key sectors at future Council meetings and looks forward to hearing the Council’s views on how government policy can be developed further to enhance the growth of Scotland’s key sectors (see recommendation 4 below).

Recommendation 3: The Council recommends that the Scottish Government improves capital and total factor productivity, alongside labour productivity.

Scottish Government Response: Accept. Although the Government’s Purpose target for productivity relates to labour productivity, we recognise the importance of improving capital and total factor productivity as a means of helping to boost sustainable economic growth. The current emphasis on capital investment, innovation and Research and Development and the key government programmes of support in these areas, will contribute to improving capital and total factor productivity.

We look forward to hearing the Council’s more specific recommendations on how the Scottish Government can further improve labour, capital and total factor productivity.

Consideration: The Council asks the Scottish Government to consider increasing productivity growth through generalised measures, for example by encouraging small or non-traditional firms, and by providing incentives for firms to extend their share of external trade or to increase the participation of foreign investment.

Scottish Government Response: Accept. A number of measures are being introduced, for example, increasing the business rates relief for thousands of Scottish companies this year through the Small Business Bonus Scheme. We are also increasing the support available to facilitate the formation of Business Improvement Districts which can help to sustain and encourage strong and diverse businesses in local communities.

We will ask Scottish Enterprise and Scottish Development International to take account of the Council’s recommendations on measures to promote trade and foreign investment.

Consideration: The Council asks the Scottish Government to consider improving capital productivity, including finding ways to reduce the branch office problem, and providing incentives for firms to reorganise their production methods, improve management techniques and skills utilisation, and to introduce technical and managerial innovations in their plants in Scotland – not just on average across the UK.
Scottish Government Response: Accept. The Scottish Government will make this a particular focus of the Skills Utilisation Leadership Group and further engage on these issues through the National Economic Forum.

Consideration: The Council asks the Scottish Government to consider using productivity as a means of lowering unit costs in production, and hence as a vehicle to induce firms to set up or extend their activities in Scotland. It should explore: lower business taxes and rates; improved planning procedures; better infrastructure and communications; specialised services; and ways of increasing flexibility in labour market practices, as the means to do this.

Scottish Government Response: Accept. We are already taking steps to reduce the tax burden and the burden of regulations for business, improve planning procedures (see recommendations 12, 13 and 14 below) and promote improved efficiency through interventions like the Scottish Manufacturing Advisory Service. We are currently using our competences over business tax to the full and believe that we could deliver even greater productivity gains with full fiscal autonomy, including the ability to lower corporation tax.
Achieving Scotland’s 2011 Growth Target

Recommendation 4: The Council recommends that the Scottish Government strengthens the competitive advantage of Scotland’s businesses by clarifying the potential problems in each of the key sectors identified in the Government Economic Strategy and identifying how government policies can be more supportive.

Scottish Government Response: Accept. The Scottish Government welcomes the Council’s endorsement of the Government’s emphasis on the key sectors and the work the Council plans to undertake on the key sectors at future meetings.

We will prepare reports on each key sector setting out what this government is doing to help create the right environment for their competitiveness and growth. A report on one key sector will be considered by the Council at each of its future meetings. We look forward to hearing the Council’s views on how government policy can be developed further to enhance growth of Scotland’s key sectors.

Recommendation 5: The Council recommends that the Scottish Government develops a range of policies that provide for greater efficiency in the provision of government and infrastructure services and accelerates the move to measure public sector activity by output rather than input.

Scottish Government Response: Accept. The Scottish Government strongly agrees that efficiency in delivering services and providing infrastructure is important. This is reinforced by the tightening fiscal position and the proposed reduction of up to £500 million in Scottish budgets in 2010-11 as a result of decisions by the UK Government. We already have in place an efficiency programme for the Scottish public sector, which sets clear targets for individual bodies and concentrates on identifying cash-releasing efficiency savings for return to the front line to support public services. Substantial efforts have been made by local authorities and health bodies, as well as by the Scottish Government and its agencies to meet efficiency targets. These targets are expected to be exceeded in 2008-09 and further work is underway to ensure targets are met in future years.

The Government’s public bodies simplification programme aims to reduce the number of public bodies in Scotland by 25% and reduce the burden of scrutiny processes.

In terms of increasing efficiency in infrastructure investment, we published in March 2008 a 10-year Infrastructure Investment Plan (IIP) aimed at securing improvements to Scotland’s infrastructure in support of the Government’s Purpose.6

Ministers have set the Scottish Futures Trust the target of increasing efficiency by between 3% and 5% across the Scottish Government’s total capital investment programme of £3.5 billion per annum. The Scottish Futures Trust is already actively engaged in this work.

6 http://www.scotland.gov.uk/Publications/2008/03/28122237/0
Considerable progress has been made over the last two years in measuring public sector activity by output rather than input. Further work is underway.\(^7\)

**Consideration:** The Council believes that one of the most important contributions the Scottish Government can make to short-term economic performance is to promote a supportable narrative of economic success based on the strong fundamentals of the Scottish economy and the advances currently happening in key economic sectors. Such an account of achievement and potential is relevant to the promotion of investment in Scotland by private companies, the development of Scottish operations by UK businesses and the retention and attraction of able workers.

**Scottish Government Response: Accept.** A narrative of economic success is undoubtedly of importance in helping the Government and its agencies sell Scottish tourism and Scottish businesses abroad – as well as in promoting investment in Scotland and increased in-migration and retention that will help us meet our Purpose target for population growth.

The Government takes this approach and will ensure particular efforts go into the development of key narratives around Homecoming 2009, Scotland’s research and innovation excellence and our comparative advantages in areas ranging from renewable energy to quality of life. The Government and key agencies will ensure that these messages are effectively targeted at home and abroad.

**Consideration:** Given that immigration is positive for the Scottish economy, policies need to be developed with a focused Diaspora strategy, and through a better understanding and use of migrants’ skills. There may be scope for enhancing Scottish flexibilities within the UK Government’s points-based system for managed migration.

**Scottish Government Response: Accept.** The Scottish Government agrees that this is a key consideration. Engagement with the Diaspora is currently being developed in relation to Homecoming 2009. We will continue to make the case for enhanced Scottish flexibilities in the management of migration to the UK Government.

**Consideration:** An effective means of increasing labour participation, demonstrated by the experiences of other European countries, is to provide high quality childcare. The Council therefore urges the Scottish Government to see this as a high priority.

**Scottish Government Response: Accept.** Devolution of the benefits system, including childcare support, would be the most effective way to increase the Scottish Government’s ability to influence labour participation. This would form a logical extension of the Scottish Government’s existing role in providing skills support to people seeking to up-skill and re-skill.

This would complement our current education plans for a 50% increase in free nursery provision. In the meantime, we are working to promote the UK childcare vouchers scheme across Scotland with employers and employees. The aim is to increase uptake and thereby improve accessibility and affordability of childcare.

\(^7\) http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/governmentactivity
The availability of integrated pre-school and childcare services has been identified as one of the priorities in our Early Years Framework, as parents find part-time pre-school services difficult to match with employment patterns. We have a clear direction of travel and our objective is to see Scots with the same level of provision as families in neighbouring Scandinavian countries.

**Consideration:** These policies need to be supported by measures which facilitate investment by taking forward the recommendations put forward by the Council on removing barriers created by the planning system and incentivising local economic development.

**Scottish Government Response: Accept.** Scottish Ministers are fully committed to modernising the planning system in Scotland and significant improvements are being made, including early actions as part of our economic recovery programme.

We are actively exploring ways to incentivise local economic development and will keep Council members informed.

See also our responses to recommendations 12, 13 and 14.
Achieving Scotland’s 2011 Emissions Target

Recommendation 6: The Council recommends that the Scottish Government commissions an independent assessment of the full economic costs and abatement potential of the various energy options open to Scotland.

Scottish Government Response: Accept. The Scottish Government is commissioning this study. We will also provide a paper setting out the Government’s current energy policy for the Council to consider. The results of the study and the paper will be considered by the Council during 2009.

Recommendation 7: The Council recommends that the Scottish Government explains how it will ensure that environmental and economic goals are given due weight, and that environmental goals are considered in parallel with goals for economic growth.

Scottish Government Response: Accept. In the 2007 Spending Review, the Scottish Government made a commitment to introduce a new system of carbon accounting across the whole of Scottish Government spend. The Carbon Assessment process (including both the High Level Assessment of Scottish Government spending and the Individual Level Assessment looking at individual programmes or projects) will ensure that the impact on emissions from specific projects, or more generally, will be factored into the decision making process. The initial findings of both assessment types are to be reported in spring 2009. We have recently published some externally commissioned research which considers the possible economic impacts resulting from some greenhouse gas mitigation options.8

We are also currently looking to develop an integrated assessment framework that will routinely evaluate Government intervention for their economic, social and environmental impact. It will help provide a summary assessment of the overall contribution that the interventions will have on the Government’s Purpose, targets and indicators.

Recommendation 8: The Council recommends that the Scottish Government identifies the most cost-effective options for reducing energy demand. This should include exploring ways of delivering transformational levels of home insulation.

Scottish Government Response: Accept. This is one of our priority policy areas. We are actively taking forward this recommendation with work underway to identify the most cost-effective ways of reducing emissions and energy demand.

This is a policy area where we expect to see year-on-year developments and improvements. For example, from this April, we are introducing a new Energy Assistance Package to provide a holistic approach to tackling fuel poverty and improve energy efficiency, building on the existing Energy Saving Scotland Advice Centre network and integrating assistance from the Scottish Government and the energy companies under the Carbon Emissions Reduction Target. Energy efficiency measures on offer will, for the first time, include renewable heating systems and insulation measures for hard-to-treat homes.

Addressing Economic Inactivity in Scotland

Recommendation 9: The Council recommends that the Scottish Government explores options for resolving tensions between Scottish and UK policy responsibilities, including devolving Jobcentre Plus.

Scottish Government Response: Accept. The Scottish Government is working with the UK Government Department for Work and Pensions (DWP) to improve the integration of Jobcentre Plus services and those provided by Skills Development Scotland. This includes better alignment of careers advice and training provision that should lead to increased participation in the labour market.

This devolution of welfare benefits is one of the key topics being raised under the National Conversation.

Recommendation 10: The Council recommends that the Scottish Government further refines, strengthens and broadens the local and partnership-based approach to service delivery – including its funding basis.

Scottish Government Response: Accept. Work is currently underway to explore further improvements through our Workforce Plus initiative. Workforce Plus is working in 25 employability partnerships led by Community Planning Partnerships across Scotland, including the three City Strategy pilot areas. Officials are looking at the current structure of the Workforce Plus National Partnership Board and the improvement of local flexible delivery in the current economic situation. The aim has always been to offer Workforce Plus across Scotland and we will continue to offer support to the other areas that have not taken the offer of support.

Recommendation 11: The Council recommends that the Scottish Government significantly improves the data-sharing practices of public bodies tasked with delivering on employability issues.

Scottish Government Response: Accept. Improved intelligence on the abilities and skills of jobseekers is vital in developing the right services to meet and understand the needs of individuals looking for work. Jobcentre Plus has a major resource that cannot currently be accessed by other partners. The Scottish Government has highlighted this Council recommendation to DWP to ask how we can make the information it has available to employability organisations in Scotland.

We have recently launched a programme of work to improve the data-sharing practices of public bodies in delivering More Choices, More Chances. This work is delivering early results and will help provide a model to support the wider data-sharing agenda.

Consideration: The Council believes that older workers can make a major contribution to the Scottish economy. While recognising labour market participation in this group is bound to increase – not least with the coming changes in the pension age – more could be done to support extended or renewed employment for older individuals. The Council asks the Scottish Government to consider the promotion of job flexibility by employers, refocusing benefits towards what older individuals can, rather than cannot, do in jobs and better support to older workers changing jobs.
Scottish Government Response: Accept. Increased participation of older people in the labour market is crucial to Scotland’s economic success, particularly in the light of the projected demographic trends. We will ask Skills Development Scotland to consider any gap in provision for older workers that is not provided by Jobcentre Plus and other agencies. The current economic downturn may change the urgency of action, and the Scottish Government will continue to review.

Consideration: Individual attitudes to employment are seen by the Council as key to increasing participation, so it is important that young people form positive views of working. Training and educational institutions must design programmes that explicitly lead to employment outcomes. To give these bodies the right incentives to do this, the Council suggests an outcome-based approach to part of their funding, potentially by linking funding to the number of participants who move on to sustainable employment or higher qualifications. The Council’s recommendations relating to higher and further education in Chapter 7 are relevant here as well.

Scottish Government Response: Accept. The recently concluded policy review of the Get Ready for Work programme highlighted a need for a clearer focus on work based training for young people to maximise positive progression from the programme. We have tasked Skills Development Scotland with developing and delivering comprehensive work based learning intervention, that will ensure young people have the opportunity to develop the skills that will allow them to participate to the best of their abilities in the Scottish labour force.

In addition, the Scottish Government will set the direction on the Horizons Fund for Universities with delivery aligned to key Government strategies and priorities. These priorities include: to better develop entrepreneurial capacity and graduate employability; to work actively with employers to ensure the skills of graduates can be utilised to best effect in the workplace; to ensure degree provision is relevant, flexible and adaptable to the needs of future learners; and to respond to changing demographics enabling learners to return to education throughout their lives to up-skill, re-skill or develop new skills for life and work.

Consideration: A better understanding of the costs to individuals of moving from benefits to employment must be reflected in policy design. Recently, DWP published its Green Paper on reforming welfare across the UK. While it is difficult to assess these reforms in the absence of more detail on how they will work, the Council believes that they represent a useful step forward. However, these reforms should be developed through greater attention to the transition to work, for example, by continuing payment of benefits for a short period to ensure individuals entering employment do not suffer cash-flow difficulties.

Scottish Government Response: Accept. These are issues we wish we could address directly with the UK Government having competence in this area. In the meantime, we will continue to press the UK Government and its agencies regarding the uncertainty and cost to individuals of finding work and staying in work.

The DWP Minister for Employment and Welfare Reform has agreed with the Cabinet Secretary for Education and Lifelong Learning that Jobcentre Plus and Scottish
Government officials will work together to consider how better referral can be made to financial/debt advice when people who have been long-term unemployed move into work.

**Consideration:** The Council believes more can be done to ensure that the demand side of the labour market can absorb any increases in the number of individuals coming off benefits or remaining in work to an older age. The Council recommends that the public sector engages more systematically with major employers and key sectors such as retail, hotels, tourism and food and drink to improve routes to sustainable employment for those harder-to-reach groups. It will also follow with interest current Scottish Government plans to pilot better skills utilisation among employers.

**Scottish Government Response: Accept.** The Scottish Government will continue to work with Sector Skills Councils to ensure that, where appropriate, the most effective links are in place with local partnerships and Jobcentre Plus to support more people into work.

Scottish Government officials will also be working with COSLA and Jobcentre Plus in the coming months to ensure public sector employers maximise their contribution through expansion of public sector academy work already in place in the NHS and some local authorities.

**Consideration:** The ability to address the skills needs of many groups currently outside of the labour market often depends on the third sector. Its capacity to carry out these services should be supported, though only to the extent of making them more competitive. The Council feels that funding arrangements with the third sector should be increasingly based on contracts for service provision rather than grants. The Scottish Government should also continue to support improvements in the business infrastructure and skills of social enterprises, encourage greater contact between the third and private sectors and provide incentives for partnership-based approaches to service delivery.

**Scottish Government Response: Accept.** The Scottish Government recognises that the third sector is an important partner, capable of connecting with individuals and communities with complex and multiple needs. We are working with the sector to deliver improvements in the areas set out by the Council that recognise the mosaic of capacities and needs.

As a government we have increased support to the third sector including through the Scottish Investment Fund (£30 million), Enterprise Fund (£12 million) and Social Entrepreneurs Fund (£1 million). These provide a spectrum of investment funding for organisations right across the third sector and for those considering setting up a social enterprise.

The Scottish Government is also working closely with the third sector, COSLA and SOLACE to ensure that there are effective relationships between the third sector and national and local government across Scotland.
**Consideration:** The link between cohesion and participation is close, particularly in the case of Glasgow, where a major increase in employment would support both sets of targets. The Council believes that further consideration is needed of whether there is an appropriate weighting of resources to, and within, Glasgow allocated to employment issues.

**Scottish Government Response: Accept.** The Scottish Government will explore options around this recommendation in partnership with local government.
Planning

Recommendation 12: The Council recommends that the Scottish Government financially incentivises local authorities to promote and facilitate sustainable development projects.

Scottish Government Response: Accept. The Scottish Government has explored a number of ways to incentivise local authorities to promote economic development and is examining, with local government partners, options such as tax increment financing. An ongoing joint review with COSLA of the local government finance distribution methodology, which will also consider as part of its remit the possible incentivisation of business rate income, is due to be completed in the second half of this year. It will inform the local government settlement for 2011-12, following the next spending review.

Recommendation 13: The Council recommends that the Scottish Government changes the culture of planning and reforms the planning system so that planners see themselves as facilitators – enabling high quality developments in the right places and making a positive contribution to sustainable economic growth – rather than regulators.

Scottish Government Response: Accept. The Scottish Government is committed to the delivery of culture change as one part of the package to modernise the planning system. The statement of shared objectives and joint actions contained in Delivering Planning Reform9 sets out the programme of work that key stakeholders including the Scottish Government, planning authorities, the development sector and agencies will address to ensure that the system works more effectively to deliver the Scottish Government’s aim of facilitating good quality development.

Ministers published Delivering Planning Reform at the planning summit in October 2008. This is a wide-ranging programme of action to support planning reform to which key stakeholders are committed. The actions in Delivering Planning Reform will be monitored by the Cabinet Secretary for Finance and Sustainable Growth and a follow-up summit will be held this spring to report on progress.

Recommendation 14: The Council recommends that the Scottish Government develops a clear understanding that a central purpose of the planning system is to facilitate good quality outcomes – well designed places and buildings that enhance their setting.

Scottish Government Response: Accept. The Scottish Government has published a Scottish Planning Policy (SPP) which sets out in clear terms their expectations for the planning system and its role in supporting sustainable economic growth. The SPP confirms that there should be a clear focus on the quality of outcomes, with due attention given to considerations of the sustainable use of land, good design and the protection and enhancement of the built and natural environment.

We have also launched the Scottish Sustainable Communities Initiative to raise the bar in terms of the quality of development and the creation of successful sustainable places.

9 http://www.scotland.gov.uk/Publications/2008/11/05100742/0
Education and Skills

Recommendation 15: The Council recommends that the Scottish Government reaches agreement with Universities Scotland on the future scale of the Scottish university system and the balance between various activities to ensure clarity in the strategic direction of universities as a system and the role of inter-institutional collaboration in that process.

Scottish Government Response: Accept. This dialogue has already started through the work of the Joint Future Thinking Taskforce on Universities on New Horizons. This will be taken further forward through the Tripartite Advisory Group (Scottish Government, Scottish Funding Council and Universities Scotland) (TAG), the FE HE Round Table, and the Scottish Funding Council as it develops its new Corporate Plan.

It should be noted that Ministers do not have any powers to influence directly the courses offered by universities. The Scottish Funding Council does, however, have a role to secure coherent provision by the fundable bodies and is reviewing the pattern of provision in the context of developing its new Corporate Plan.

Recommendation 16: The Council recommends that the Scottish Government considers three quite radical actions to develop the higher education system as a real competitive strength for Scotland:

■ a two-tier approach to standard four-year honours courses, with the first two years resulting in a broad, stand-alone qualification and the second two an additional specialised qualification;
■ developing local institutions so that they can build on existing diversity to promote locally-available courses and provide an entry route into higher education; and
■ developing Scotland’s secondary and tertiary education as part of the high-skilled services that Scotland already provides to the global economy.

Scottish Government Response: Accept in part. The suggested two-tier approach to honours courses would be a radical departure. The Scottish Government remains to be convinced regarding this part of the recommendation, but will listen with interest to the debate the recommendation has sparked. It should also be noted that, due to the autonomy of higher education institutions (HEIs), Ministers do not have any powers to prescribe the content or length of degrees bestowed by universities in Scotland. This is the province of the individual schools/departments of each autonomous institution and, ultimately, each academic senate of each HEI. In addition, there has to be demand from both students and employers for such qualifications before universities will consider their introduction and this has, so far, yet to materialise. It should also be noted that a qualification already exists for two years’ successful study at university, namely the Diploma in Higher Education. Moreover, an increasing number of universities accept articulating HND students from college into the second or third years of the three-year Ordinary/four-year honours degree programme.

More broadly, New Horizons makes it clear that developing more flexible provision is part of the shared ambition for Scottish universities in the 21st century. It recognises
that, to be successful, degree provision will have to be relevant, flexible and adaptable to the needs of future learners and collaboration with schools and colleges to create articulation and entry/exit points into, and out of, degree programmes will have to be commonplace.

There is work already under way by HEIs to increase the flexibility of their offering to meet the needs of a more diverse student base. This includes moving to a more modular approach, enabling students to be allocated appropriate credits at whatever point they enter or exit higher education. The Scottish Funding Council is also sponsoring work to enhance articulation from Higher National qualifications to degrees.

**Recommendation 17:** The Council recommends that the Scottish Government examines how the significant additional costs might be funded through increased contributions from all stakeholders including government, business, students (foreign and local), industry, broad-based philanthropy (including alumni), patents and competitive research contracts.

**Scottish Government Response:** Accept in part. The Scottish Government believes that education should be based on ability to learn not ability to pay. *New Horizons* recognises the importance of HEIs continuing to generate a substantial amount of income over and above the resources they receive from the Scottish Government. The report also acknowledges that there is capacity to grow income from philanthropic giving and employers.

The new TAG will be advising the Scottish Government on the level of public investment required in learning and teaching, research and knowledge exchange activities to maintain broad overall comparability with the rest of the UK.

**Consideration:** The Council asks the Scottish Government to ensure that the proposed government funding mechanisms for higher education generate appropriate incentives for all stakeholders and minimise risks of perverse incentives, especially those that undermine quality.

**Scottish Government Response:** Accept. One of the roles of the new TAG is to advise on how well the new funding arrangements should be and are operating. This will include the new Horizon Fund for Universities which is designed to incentivise and support universities to improve their delivery in target areas.

We will consider whether the new funding arrangements are proving appropriate incentives, while minimising the risk of perverse incentives, as part of those discussions.

**Consideration:** The Council asks the Scottish Government to ensure the presence of appropriately-chosen business representatives in the oversight of expenditure and policy on higher education, given its new role in the future development of Scotland and the scale of government commitment involved.

**Scottish Government Response:** Accept. We share the Council’s view about the importance of engaging the business community in the oversight of expenditure and
developing higher education. The appointment process for the Scottish Funding Council is designed to ensure an appropriate range of skills amongst Council members, including business experience.

One of the primary roles of the Scottish Funding Council is to hold colleges and universities accountable for delivering the quantity, quality and relevance of further and higher education and research sought by Scottish Ministers, for achieving best value from public funds, and for managing their financial and other resources in a sustainable way. We are also encouraging increased co-operation between the Funding Council, our Enterprise Agencies and Skills Development Scotland to ensure these bodies work together effectively to deliver on the Government’s Purpose of increased sustainable economic growth.

**Consideration:** The Council asks the Scottish Government to explore how to encourage higher education students to develop positive attitudes towards investing in their own education, building on the principle that the greater the level of personal investment they make, the more focused and effective the educational outcomes will be.

**Scottish Government Response: Accept in part.** Students already invest a great deal – they give up their time and they forego higher earnings for the period of their course, compared with what they would have earned if they went straight into employment. They also subsidise their living costs through student loans – with the average degree student leaving with debt of around £10,000.

That is a significant personal investment and one that is likely to prevent some of our most able young people, from non-traditional backgrounds, from attending higher education. For this reason, we are currently consulting on proposals to move from student loans to grants.

**Consideration:** The Council asks the Scottish Government to examine mechanisms which would further promote the successful commercialisation of university research.

**Scottish Government Response: Accept.** Working with Scottish Enterprise, the Scottish Funding Council is considering proposals to develop a business engagement voucher scheme to stimulate work between Scotland’s higher education institutions and SMEs.

Science for Scotland, the Scottish Government’s new framework for science published on 27 November 2008, sets out how the Scottish Government will develop scientific research and economic and business demand including the commercialisation of university research.

In the context of Science for Scotland, we will be working with the Scottish Funding Council, Universities Scotland, Scottish Enterprise and Highlands and Islands Enterprise to foster and enhance university and business collaborations.

**Para 29.** The Council asks the Scottish Government to consider whether it would be appropriate for Scotland to focus on developing world class universities or world-class university departments and what would be the cost implications of pursuing either of these options. At future meetings the Council is willing to explore further the associated financial and system implications, should the Scottish Government find this helpful.
Scottish Government Response: Accept. The Scottish Government recognises the importance of having world-class universities in Scotland and its ambitions set out in New Horizons include having: a university sector that is nationally and internationally competitive; a university sector which is regarded as ‘world class’; and a number of universities ranked in the world’s top performers. The results of the Research Assessment Exercise (RAE), published in December 2008, which assesses the quality of research in universities across the UK, shows that all Scottish universities are involved in ‘world-leading’ research. The independent assessment, conducted jointly by the Scottish Funding Council and university funding bodies for England, Wales and Northern Ireland, found that the proportion of Scottish research graded at the highest level has increased since the last RAE in 2001. Scotland currently has three universities in the top 100 of the latest Times Higher rankings for universities. The TAG will look at the costs of keeping Scottish universities competitive.
Infrastructure

Recommendation 18: The Council recommends that the Scottish Government raises the overall level of infrastructure spending within Scotland and reviews the state of Scotland’s infrastructure within a single comprehensive framework.

Scottish Government Response: Accept in part. In March 2008, the Scottish Government published the 10-year IIP aimed at securing improvements to Scotland’s infrastructure in support of the Government’s Purpose. The plan identifies £35 billion of investment as being required, and provides a broad basis for prioritising this investment. The £35 billion programme is equivalent to about 10 years of current capital spending by the Scottish Government.

If more resources could be secured, the IIP could be accelerated and in this regard we believe independence and full fiscal autonomy, including the ability to borrow in the same way as similar nations, would enable us to increase capital investment significantly. We share the Council’s aspiration in this regard and believe infrastructure investment – whereby Scotland’s capital allocation is determined on the basis of spending elsewhere in the UK – is a prime example of the limits of the current financial arrangements.

Recommendation 19: The Council recommends that the Scottish Government pursues, with the UK Government, revisions to the current fiscal arrangements which would enable it to plan efficiently the appropriate balance between current and capital expenditure, and to meet Scotland’s overall infrastructure needs.

Scottish Government Response: Accept. The Scottish Government will continue to engage on this point with the UK Government and will ensure UK Ministers are aware of the Council’s recommendation.

Recommendation 20: The Council recommends that the Scottish Government explores the possibility of new means of borrowing, outside the Private Finance Initiative, to help finance public sector infrastructure.

Scottish Government Response: Accept. A key consequence of achieving fiscal autonomy would be that the Scottish Government would have the freedom to borrow, if it chose to do so, to support Scottish programmes and services. Within the current financial arrangements, it is not possible for the Scottish Government to borrow, although as the Council points out, local authorities in Scotland can do so. In addition, we have set the Scottish Futures Trust the task of exploring innovative approaches to financing public infrastructure investment.

Separately from considerations of fiscal autonomy, we would be happy to explore with the Treasury the scope for changes to the current financial regime to enable new means of borrowing in Scotland to help finance public infrastructure.
Consideration: The Council believes that government borrowing of a conventional kind is cheaper and more transparent than other methods of financing. The Scottish Government should, wherever possible, avoid off-balance sheet transactions and should make clear the implications of current decisions for future spending.

Scottish Government Response: Accept. We agree that conventional sovereign borrowing is the cheapest way to provide funding for infrastructure investment. Unfortunately, the amounts of UK Government capital available to Scotland each year are strictly limited by the UK Parliament and the Treasury, and there is practically no flexibility to increase budgets in response to increases in assessed demand.

The Government fully agrees that the future costs of decisions about funding infrastructure projects should be made explicit. The future estimated costs of existing and planned NPD/PPP/PFI schemes in Scotland over the next 30 years was set out in full in the document setting out the business plan for the Scottish Futures Trust.10

Consideration: The Scottish Government should secure independent monitoring of this reporting and of its overall fiscal stance.

Scottish Government Response: Accept in part. It appears that this consideration relates particularly to independent monitoring of future financial commitments flowing from off-balance sheet transactions. However, we also note that off-balance sheet transactions in support of public infrastructure investment are likely to be ended by the adoption of International Financial Reporting Standards. The most obvious independent monitor would be Audit Scotland and the Auditor General. However, the Scottish Government – rightly – does not set the priorities or terms of reference for the Auditor General or Audit Scotland. It may be appropriate to ask for the Auditor General’s comments on this issue.

As for independent monitoring of its overall fiscal stance, we would welcome this. However, in current circumstances with no meaningful fiscal autonomy, we are unsure how much independent monitoring would be possible. There is already significant independent monitoring of the Scottish Government’s public spending proposals and of its actual spend through the Parliament and its Committees and through the work of Audit Scotland.

Consideration: The Scottish Government should seek to develop its expertise in the management of infrastructure projects. The development of such expertise should be accompanied by better project assessment and value for money auditing.

Scottish Government Response: Accept. We fully agree that there is scope to improve performance across the public sector in planning and delivering capital projects. Indeed, creating this centre of excellence is a central purpose of the Scottish Futures Trust.

10 http://www.scotland.gov.uk/Publications/2008/05/19155435/0
Scottish Economic Statistics

Recommendation 21: The Council recommends that the Scottish Government improves the quality of Scottish economic statistics in several specific areas so that they meet the needs of government.

Scottish Government Response: Accept in part. The Scottish Government produces a wide range of economic statistics (quarterly GDP estimates, input-output tables, export estimates and fiscal accounts), leading the way in comparison with the other devolved administrations and English regions. However, the overall scope of data provided for Scotland is not comparable with what is available at the UK level. This, in part, simply reflects the fact that the UK, rather than Scotland, is the key reporting unit for many national statistics. This means that Scottish data are produced after a significant lag as UK level work has to conclude before Scottish level work can begin.

However, ambitious development plans for Scottish economic statistics have been set out. Moreover, a highly active group of external experts meet to discuss methodological developments and other initiatives.

Ideally, any government needs a full set of national accounts to understand and describe their economic activities, and to support the formulation and monitoring of economic and social policies. These are generally compiled by National Statistical Institutions and are rarely available for the underlying countries or regions. We have recently launched the Scottish National Accounts Project (SNAP) which will attempt to produce a greater range of high level economic estimates for Scotland in line with national accounting principles. However, in order to fully develop National Accounts for Scotland we would require changes to the collection of data by the ONS throughout the UK in terms of geographic reporting.

In relation to the specific areas identified:

- We will continue to work with the finance sector to improve our estimates of the performance of this industry. This sector is notoriously difficult to measure, however, even at a national level. Scottish banks, for example, have great difficulty in identifying their activity purely in Scotland as their accounts relate to their total activity. Our estimates are sourced from the Committee of Scottish Clearing Bankers and so we are entirely dependent on them for data quality;
- Further analysis of the oil and gas sector is being undertaken in the SNAP programme;
- We are currently considering how the input-output analysis can be used to analyse environmental impact relating to policy change; and
- A review of deflators, more generally, will be carried out in the SNAP programme.

12 http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/ScotStat
13 http://www.scotland.gov.uk/SNAP
Considerable progress has been made over the past two years in replacing input estimates with output estimates for public sector activity in the GDP system. Further work will be undertaken in due course to adjust output measures to account for quality change.

Recommendation 22: The Council recommends that the Scottish Government uses other measures of performance in addition to GDP to measure the performance of the Scottish economy.

Scottish Government Response: Accept. We recognise that it is important to monitor a range of indicators to evaluate the performance of the Scottish economy. As highlighted in the recently published assessment of the Scottish economy by Dr Andrew Goudie, the Chief Economic Adviser, we currently make full use of a range of indicators to monitor the performance of the Scottish economy (for example: manufacturing exports, labour market statistics, business formation/survival statistics and business surveys).

Consideration: We believe that equal attention should be given to earnings and that an analysis of the differentials in earnings, both the overall distribution and regional and sectoral breakdowns, may provide ‘hard’ statistics which will be relevant to our analysis and evaluation of policy.

Scottish Government Response: Accept. We agree that earnings data can provide useful information on the performance of the Scottish economy. We currently have a number of different measures of earnings data which we use to examine developments in the labour market.

Due to the limitations of the current data available (for example, difficulty in providing time-series information and breaking this down by sector and region), further investment would need to be undertaken to improve the reliability of Scottish earnings data. Even with such investment, we would need to interpret the earnings data alongside a range of other indicators on the performance of the economy (for example, a rise in earnings may simply reflect a shortage of labour rather than the strength of the economy).

As part of the SNAP programme, we will attempt to create a quarterly income-based estimate of GVA and GDP, the largest element of which relates to compensation of employees. This will analyse the number of employees and average earnings by industrial sector. In addition it will provide estimates of mixed income and taxes relating to earnings and wealth creation. In time, this will be balanced to other measures of GDP (production and expenditure based). As the above is based largely on sample information, this analysis will provide ‘soft’ statistics.

Consideration: A focus on measuring GDP fails to recognise depreciation of all kinds. We consider that a framework for Scottish economic statistics should give greater emphasis to the measurement of capital assets, both material and environmental.
Scottish Government Response: Accept. To understand fully how depreciation impacts on economic growth in Scotland, we would need to produce reliable estimates of gross fixed capital formation, and set up a set of capital accounts and balance sheets. This would be difficult at present as institutions are only required to produce capital expenditure for their UK reporting unit. Some survey work and modelling would be required in Scotland to produce these statistics. This will be considered in due course as part of the SNAP initiative.
The Scottish Government's Response to the First Annual Report of the Council of Economic Advisers

15 January 2009
Economy, Energy and Tourism Committee

2nd Meeting, 2009 (Session 3), Wednesday, 21 January, 2009

National Planning Framework 2 – additional written evidence

Background

1. The following written evidence submissions have been sent directly to the Committee and are attached as an annexe to this paper:

   - a submission from Highlands Before Pylons;
   - a submission from the John Muir Trust.

2. The Local Government and Communities Committee has received a number of written submissions in response to its call for written evidence on NPF2. These are available on the Local Government and Communities Committee webpages:


3. A number of these submissions refer to issues within the Economy, Energy and Tourism Committee’s remit. Additionally, some of those submitting written evidence have also requested that their submissions be distributed to the Committee. The relevant submissions that have not already been circulated to Members include:

   - Action for Planning Transparency
   - Alison Lowe
   - Ariane Loening
   - Babcock Marine
   - Buckingham Hamilton and Ruskin Association
   - Cindy Coutillier
   - City of Edinburgh Council
   - Clare Symonds (2 submissions)
   - Diana Cairns
   - Doug Piggot
   - Forth Ports plc
   - Gerry McCartney
   - Jim Hammond
   - Midlothian Council
   - Mrs Aileen Campbell
   - Mrs E Holland
   - North Ayrshire Council
   - Pamela McLean
   - Paul Jenkins
   - Plane Speaking
   - Ramblers Association Scotland
4. SPICe has made a short summary of written evidence, which is included with the Committee papers.

Recommendation

Members are invited to take the written evidence submissions to the Local Government and Communities Committee into account in their deliberations on the National Planning Framework 2 during today’s meeting.

Stephen Imrie
Clerk to the Committee
January 2009
Annexe

Highlands Before Pylons submission on the National Planning Framework 2

Highlands Before Pylons is anxious to bring the following considerations before the committee as you scrutinise the NPF2 draft proposals for transmission infrastructure. We would be happy to provide further technical information in support of our case.

Our campaign to prevent the construction of a line of 50 metre high pylons between Ullapool and Beauly has been a partial success. SHETL has lodged a proposal for planning permission for an underground cable from Dundonnell to Beauly. This of course could be overruled by Ofgem on grounds of cost to the consumer.

During our campaign we researched and vigorously argued for a sub sea alternative, specifically a sub sea cable from Stornoway to Hunterston or even further south.

We also joined the Beauly Denny debate pointing out that reinforcement of the current grid combined with subsea cables down both the east and west coasts could cater for the transmission needs of Highland for the foreseeable future.

Since the Beauly Denny proposal was subject to inquiry, when we attended the Inverness consultation on NPF2 we were told we could not discuss it and that NPF2 was not based on an assumption that Beauly Denny will be approved.

However the objective evidence is that NPF proposals for transmission are based on all of SSE previous plans. We pointed out to Mr Jim Mackinnon that an arrow on the maps 18 and 20 pointed to a subsea link with the mainland of Wester Ross. There was no arrow for a putative subsea link with Hunterston, a route favoured by AMEC at the time as part of the Lewiswind project. He promised to consider this omission but the Plan has gone forward with no suggestion of a west coast subsea link.

In the meantime plans are advancing rapidly for subsea grids not just round the coast of Scotland (excluding the North West) but to serve Europe. We would earnestly ask the committee to question the logic of this apparent determined commitment to an overland transmission interconnector to Beauly, with an as yet unspoken commitment to the Beauly Denny upgrade without which the published plans do not make sense, when subsea cable links could carry energy from the Western and Northern Isles direct to its southern markets.

We have lobbied long and hard on this subject in the hope that at some point it must be possible given the far-reaching scope of NPF2 for a fresh look at SSE’s now elderly proposals and for some genuine forward planning for
transmission in our area. We'd be very happy to talk to members of the committee about our view of the best way forward for Northern Scotland's transmission needs.
John Muir Trust submission on the National Planning Framework 2

Background on the John Muir Trust

1. The John Muir Trust is a Scottish based charity whose aim is to conserve and protect wild places with their indigenous animals, plants and soils for the benefit of present and future generations. A major emphasis throughout all of our work is the recognition of the important role that local communities have in the management and care of their “wild landscapes”. The Trust owns eight areas of wild land and works in partnership with local communities on several other areas of wild land.

2. Whilst our overriding concern is the protection of wild places, we understand the need for many landscapes to evolve and change as technology and communities evolve and change. It is of critical importance that local communities have a real say in those changes – how they are managed, how to minimise any adverse impacts on the communities and whether adverse changes are actually necessary, taking into account both the national interest and the local one.

3. The Trust uses its experience with communities, and its involvement in site-specific planning issues, to inform its policies on national, strategic issues. The Trust's aim to protect and enhance wild land has led to it gaining extensive experience on strategic energy and transmission issues, aided by advisors who are experts in this highly specific field.

4. The Trust is a member of Scottish Environment Link and is one of the signatories to the SE Link submission on the NPF2 and we completely support that submission. The points raised in this individual submission do not duplicate that submission but are additional, in areas of policy where the Trust has particular knowledge and expertise – either internally or through advisors.

National Developments – more significant than third party right of appeal?

5. Proposed National Developments are at very varied stages of the planning process. This means that, for some, there is not enough information to assess the need for that particular project. This is a critical issue since designation in the National Planning Framework is the mechanism for establishing the need for these developments and any subsequent examination of the detailed planning implications will not be concerned with the principle of the development. Therefore it is essential that Members of the Scottish Parliament assure themselves that the “need case” was proven.

6. It is critical that the National Planning Framework does not become a vehicle for fast-tracking controversial decisions, using the “national interest” argument to rule out any rigorous examination of the plan by all interested parties. This would be a dangerous erosion of democratic rights. This is of
concern for a number of the National Developments but the John Muir Trust response concentrates on the one on which we have considerable expertise – the grid infrastructure.

7. Our opposition to this proposal being included in the National Developments is despite the fact that the John Muir Trust is very much in favour of some of the grid development included - i.e. the North East Coast route - and has not formed particular views on most of them. The Trust opposes the inclusion of these many developments as a single National Development, for the following reasons.

Proposed National Development 10 - Electricity Grid Reinforcements

Need for development

8. The statement of the need for these ten developments in the NPF2 is, in its entirety –

“Need for development
These strategic grid reinforcements are essential to providing the transmission capacity necessary to realise the potential of Scotland’s renewable energy resources, maintain long-term security of electricity supply and support sustainable economic development.” However, this is a statement of the need for upgrading the grid in Scotland – not for doing it in this particular way.

Suitability of the candidate as a National Development

9. In the National Planning Framework 2 SEA Supplementary Assessment, the following criteria were listed as having been used to assess candidate National Developments as reasonable alternatives.

“1.11 ………because they
a. raise significant planning issues that require to be addressed;
b. are at an appropriate stage in the planning process (i.e. planning or equivalent consent has not already been granted);
c. are transport, energy or environmental infrastructure projects, as opposed to more complex development proposals likely to involve multiple planning and other consents; and
d. are sufficiently defined to allow for a meaningful environmental assessment.”

10. Of these four criteria, the Energy Transmission Infrastructure fails to fulfil the third and fourth ones. The third criterion is that the projects “are transport, energy or environmental infrastructure projects, as opposed to more complex development proposals likely to involve multiple planning and other consents”.

11. Although this is an energy infrastructure proposal, there are ten separate transmission projects throughout Scotland included in this “single” Candidate National Development. Each of those is likely to involve several different planning/Section 37 of Electricity Act applications.
This does not seem to fit with the description “as opposed to more complex
development proposals”. Each one of the ten is a complex development
proposal in itself.

12. The fourth criterion is that they “are sufficiently defined to allow for a
meaningful environmental assessment.” The ten proposals included in this
one are at varying stages of development. However, the Scottish
Government team doing this Strategic Environmental Assessment (SEA)
agreed, in the consultation meetings, that there was not enough information
for a comprehensive SEA to be done on these transmission proposals –
unlike some other proposed National Developments. The team also agreed
that further work would need to be done before the SEA could be said to
have adequately considered alternative routes for each of these ten
transmission routes. There is no evidence that this necessary assessment
has been done.

13. This Candidate National Development is the odd one out in the
proposed NPF2– it includes ten developments which are scattered throughout
the country and which are not spatially defined. The equivalent for the road
network would be to say “road upgrades at the A9, the A96, the A1, the A90
and any associated ring roads” count as one National Development. In fact,
each of these possible road developments is put forward as a spatially
defined, individual, Candidate National Development and the Trust believes
the transmission proposals each also need separate consideration.

Strategic Environmental Assessment

14. The assessment of the grid proposals in the Strategic Environmental
Assessment is very fair and notes a fairly equal number of negative and
positive effects. There is absolutely no record of those negative effects in the
final document so it is hard to see any indication that the SEA was
considered or used to revise the final NPF2.

15. There is a common misunderstanding that “grid upgrades” are not as
significant for either landscape or local amenity as, say, a road. In fact, the
scale and size of the infrastructure which is referred to, in the phrase “Energy
Transmission Infrastructure”, is of a scale that has not been seen in Scotland,
except in a few urban hubs. One difference from those urban sites is that
some of these proposed projects are passing through some of Scotland’s
most scenic areas, critical for tourism and our heritage.

The separate roles of Ofgem and the planning system

16. One significant reason for not including the grid infrastructure in bulk as
a single National Development is because each major proposal in that group,
should be assessed as a planning application, as and when they come
forward. These proposals have been included in the draft NPF2 because the
transmission regulator, Ofgem, has considered there is a valid case for them.
However, Ofgem’s role is to consider the commercial case for any proposed
development which is placed before them, including the cost to the consumer
- taking into account the electricity security standards (GBSQSS). Ofgem are on record as saying that they are “the judge, not the presenting solicitor” i.e. they can only assess the proposal before them, not look to see whether there is a better way. **It is the planning system’s role, not that of Ofgem, to assess whether the development can go ahead** - after considering all aspects relevant to the planning system, including the environmental effects and better alternatives if they are put forward.

**Radical departure from current procedure**

17. Until now, throughout the UK, the system has been that Ofgem provisionally approve a development, having properly had regard to the technical and commercial case, but the public could still make the case at Public Inquiry that the line should not go ahead – for instance, if the environmental case was too detrimental. Then it would be open for a new, possibly but not necessarily more costly, solution to be explored by the relevant Parties. Ofgem cannot and makes no attempt to weigh up these planning matters which are entirely outwith their regulatory role. For instance, with regard to the Beauly Denny line, Ofgem specifically said that it had not assessed environmental considerations, having left them to the planning system. Under the current proposal, a similar application could not be halted for major environmental, or even economic, reasons, even if an alternative was possible – because that alternative could not be considered in the planning process.

18. Ofgem, in their role as the regulator for the electricity consumer, has agreed to proposals put before it - with the expectation that these are the cheapest options. If the proposal goes through, there will be no occasion when that is balanced against other Planning concerns, e.g. environmental degradation. The democratic right for these options to be explored is removed. This Scottish Parliament consideration is the only occasion where the case against any one of the developments in this single proposed National Development can be heard.

**Diminished role for planning**

19. Although such a development will still be open to Public Inquiry, it will not be on the substantive issue of whether the development goes ahead or not. When this issue was raised at one of the NPF2 consultation meetings, it was suggested that alternatives had been considered whilst the NPF2 was being drafted, in the Assessment of Strategic Alternatives. However, questions to the SEA team confirmed that this has not been done for the grid options, due to lack of information and time. It is not possible, or appropriate, to assess such alternatives for ten grid developments throughout the country, as part of preparing the NPF2. This needs to be done on a site specific basis. This is why it is particularly inappropriate to include the grid options on the same basis as the other site-specific National Developments – the basis that the need for the development is now proven, since it clearly has not been.

**Re-assessment of proposals in light of changing circumstance**
20. In view of the long timescale which the NPF is looking at, these proposals should still be assessed for “need” at the time they are submitted - because the economic and technical case changes all the time, as we have seen with the recent economic upheavals. Of particular relevance is the advancing technology for sub-sea cabling, changes in costs and maturing of offshore energy technologies. These all affect the case for building these transmission projects onshore, as opposed to using subsea routes or different overhead routes. For instance, the assessment needs to be made in the context of recent Scottish Government policy announcements regarding prioritising subsea grid developments.

21. In the worst case scenario, Ofgem might say, “yes, there is a commercial case”; the NPF2 includes the development; several years later, the transmission company applies for planning permission and it is automatically assumed that the development must go ahead because it is in the NPF2. The economics and technology could have changed radically but there will be no ability for this to be considered or for the public to make representation on this absolutely fundamental aspect.

22. Indeed, some of these difficulties have already been seen. Although the first National Planning Framework did not have the same status as the NPF2 will have, the fact that it included the Beauly Denny transmission line was suggested as indicative that the Scottish Executive had decreed that the line had to go ahead. This was despite the fact that Beauly Denny had not had strategic alternatives examined – it not being Ofgem’s role to do that. (In fact, the Inquiry could not have gone ahead if this had been the case). The long-term nature of the NPF means that it must not be used to embed commercial proposals, with no way for them to be re-examined in the light of new circumstances.

Prejudicial effect of NPF2 on Beauly Denny decision?

23. The NPF2 Consultation Draft states that the inclusion of the ten itemised grid developments does not pre-judge, and will not influence, the outcome of the Beauly Denny 400kV transmission line Public Local Inquiry - despite the fact that three of the proposed grid upgrades feed into Beauly and that any electricity brought along these upgrades would require additional capacity to be built. This appears to be a difficult argument to sustain, although ultimately one which might be settled at Judicial Review.

Conclusion

24. If Scotland had a National Energy Strategy then the Scottish population would have had a say in the strategic shape of energy development around them – whether they wish, in certain key areas, a, possibly more costly, option - subsea routes, to be used to protect their natural heritage and economic interests. In the absence of such a strategy, and with a privately run energy sector, there needs to be an opportunity for competing alternatives for energy development to be assessed – something
which in the past would have been done by the state-run electricity sector. Otherwise, each transmission operator will propose what is best for their company's profit and there will be no forum for strategic analysis. This has the potential to lead to stranded assets and an unnecessarily damaged landscape, with the economic consequences those bring.

25. Whilst the National Planning Framework 2 has included many worthy aspirations in its overview, and the scope of its aspirations are to be commended, inclusion of this particular National Development would be undemocratic and threaten to have the opposite effect to that which is hoped for, from such a document. These issues are of absolutely fundamental importance – both for democracy and our natural heritage.

26. The Trust submits that this Candidate National Development is not suitable for inclusion in the NPF2.

Helen McDade, Head of Policy 13th January 2009
National Planning Framework for Scotland 2: Proposed Framework

Overview of Written Evidence

Introduction

This paper provides the Local Government and Communities Committee with an overview of the key themes raised in the 44 responses to the call for written evidence on the National Planning Framework for Scotland 2: Proposed Framework, which had been received by the close of play on 14 January 2009.

This paper does not aim to provide a comprehensive overview of all the points raised in every response received, but draw out broad themes which run through the written evidence.

The Call for Evidence

The call for evidence, which ran from 12 December 2008 until 12 January 2009, posed the following six specific questions.

- Whether the policies set out in the NPF2 support the Government's key aims for the development of Scotland to 2030.
- Whether the correct balance has been struck between economic development and environmental protection.
- Whether the proposals listed as potential national developments meet the criteria set out by Ministers in a statement to Parliament on 13 September 2007.
- The key priorities for regional development set out in the spatial perspectives section.
- The potential impact on local authority development planning and development management.
- Any financial implications for local authority planning departments.
Who Responded?

The 44 respondents to the call for written evidence can be categorised as follows:

<table>
<thead>
<tr>
<th>Who?</th>
<th>How Many?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Development Planning Authority</td>
<td>1</td>
</tr>
<tr>
<td>Local Authority</td>
<td>5</td>
</tr>
<tr>
<td>Local Group</td>
<td>1</td>
</tr>
<tr>
<td>Individual</td>
<td>14</td>
</tr>
<tr>
<td>Business</td>
<td>6</td>
</tr>
<tr>
<td>Residents Association</td>
<td>1</td>
</tr>
<tr>
<td>Environmental Group</td>
<td>7</td>
</tr>
<tr>
<td>Political Party</td>
<td>1</td>
</tr>
<tr>
<td>Community Council</td>
<td>3</td>
</tr>
<tr>
<td>Industry Group</td>
<td>2</td>
</tr>
<tr>
<td>Planning Aid for Scotland</td>
<td>1</td>
</tr>
<tr>
<td>Community Group</td>
<td>1</td>
</tr>
<tr>
<td>Scottish Government Agency</td>
<td>1</td>
</tr>
<tr>
<td>Government Advisors</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>44</td>
</tr>
</tbody>
</table>

Key Themes Emerging from the Written Evidence

Thirteen key themes arise from the analysis of the 44 responses to the Committee’s call for written evidence, which are briefly summarised below. In addition, Appendix 1 identifies which respondents raised what issues. It is important to remember that this analysis does not outline every issue raised by each respondent, but aims to identify key themes.

Welcome NPF2: While many responses were broadly supportive of the general direction of NPF2, seven respondents clearly indicated broad support for the contents of the document – although several of these did go on to raise minor issues of concern, e.g. while RSPB Scotland “…believe the proposed NPF2 is an excellent planning document” it also considered that “…the NPF should go further, and specifically identify the need for landscape scale ecosystem and land management projects to complement/offset impacts of the proposed national developments”.

Consultation – Positive: Three respondents commended the Scottish Government on the NPF2 consultation exercise, e.g. Planning Aid for Scotland states “PAS has examined the Participation Statements that have been prepared at regular intervals to update stakeholders and the general public on the progress of NPF2. They show that the methods used to raise awareness and seek comments have been wide-ranging and have incorporated a variety of consultation methods including targeted engagement, a website, a helpline, seminars, events and leaflets. We also wish to commend the efforts made to engage harder-to-reach and diverse sections of society in the discussion of the overall vision.”
Consultation – Negative: 19 respondents raised concerns about the Scottish Government NPF2 consultation exercise, making this was the most popular concern identified by respondents. Many of these 19 respondents referred to the “Critique of the National Planning Framework 2 Consultation Process” produced by Clare Symonds for the Building Alternatives organisation. This document considered whether the Scottish Government’s consultation exercise met the standards set out in the NPF Participation Statement and also evaluated the consultation against the 10 national standards for community engagement which were developed by Communities Scotland.

Clare Symond’s analysis of the consultation exercise “...concludes that the participation statement was not fully complied with. It concludes that three of the six main objectives stated in the participation statement were not met. It found the arrangements for participation were not transparent, there was no selection process of participants and there was poor representation of the general public during the process. There is scant evidence to demonstrate that representations were considered. The additional stated aim of reaching out beyond the constituency of organizations and individuals normally involved in planning consultations was not achieved and little seems to have been done to try to engage a wider range of public interest.”

A96 Corridor: Six respondents raised concerns about references in the NPF to Highland Council’s proposals for the development of the A96 corridor between Inverness and Nairn. Concern focuses on the possible environmental, economic and social impact of this proposed development. Several respondents indicate that the A96 Corridor Development Framework is currently “interim guidance” rather than formal development planning policy and are worried that its inclusion in the NPF would supersede current local plan policies and pre-empt the development of a new development plan for the area.

Sustainable Development: This was the second most popular concern of respondents to the call for written evidence. Eighteen respondents raised issues related to sustainable development and environmental protection. Most respondents covered issues such as the potential negative climate change impacts of some national developments (e.g. Sustainable Development Commission), an imbalance between economic development priorities and environmental protection (e.g. Jim Hammond) and the a need to increase the focus on the preservation of Scotland’s landscapes, natural heritage and biodiversity (e.g. Ramblers Association). Most of the 18 respondent’s covered all three of these issues to a greater or lesser extent (e.g. RSPB Scotland).

National Developments – Negative: 10 respondents objected to the inclusion of one or more proposed national developments in NPF2, e.g. Hillhead Community Council objected to the inclusion of the Strategic Airport Enhancement national development due to negative environmental impacts while Pamela McLean objected to the New Non-Nuclear Baseload Capacity national development due to possible increases in greenhouse gas emissions.

Rosyth: The designation of Rosyth International Container Terminal as a national development was raised as a matter of concern by Forth Ports, which operates
Grangemouth container port (also designated as a national development) and other ports/harbours on the Forth. However, the designation was strongly supported by Babcock Marine, the owner of the Rosyth site.

Specific Textual Changes: Four organisations called for specific changes to be made to the text of the NPF, e.g. Renfrewshire Council called for changes to paragraph 178 to reflect changes which may be introduced by the Flood Risk Management (Scotland) Bill which is currently going being considered by Parliament.

National Developments – Criteria: Three respondents questioned whether one or more of the proposed national developments met the six criteria for designation as a national development established by the Scottish Government, e.g. with reference to the Strategic Airport Enhancements and New Non-Nuclear Baseload Capacity national developments Friends of the Earth Scotland consider that “The level of assessment provided by the NPF and the accompanying SEA is not adequate to make such decisions”.

Diana Cairns also raised the issue that the criteria for designating a national development can be changed by the Scottish Government without reference to Parliament or the public, possibly undermining the robustness of the NPF.

Glasgow Airport: Plane Speaking and the SSP both raised concerns about the environmental, social and economic impact of the possible expansion of Glasgow Airport.

Housing: Homes for Scotland raised several concerns regarding the housing provisions in NPF2, and specifically requested that it be amended to provide greater direction to planning authorities on the location and supply of land to meet house building targets, give stronger guidance on funding for infrastructure, recognise that the credit crunch makes it unrealistic for house builders to fund major infrastructure projects and encourage a positive culture change in local authority planning departments to help facilitate new development.

Capital City Status: Both the City of Edinburgh and Midlothian councils requested that NPF2 be amended to take account of Edinburgh’s role as Scotland’s capital city and a key driver of the Scottish economy.

Vision: Joint respondents Vance Allen and Bill Rodger argued that the NPF took a “mechanistic approach” to Scotland’s development, focussing too much on physical and infrastructure development without considering the development of human capital and how to deal with possible future problems of the scale of the current credit crunch.

Alan Rehfisch
Senior Research Specialist
SPICe
Appendix 1: Key issues raised by respondents to the Local Government and Communities Committee's call for written evidence on the National Planning Framework for Scotland 2: Proposed Framework

It is important to note that this table does not list each issue raised by every respondent. Rather, it aims to highlight the main issue(s) raised by respondents, particularly those issues of importance to more than one respondent.

<table>
<thead>
<tr>
<th>Who</th>
<th>Role</th>
<th>Welcome NPF2</th>
<th>Consultation – positive</th>
<th>Consultation - negative</th>
<th>A96 Corridor</th>
<th>Sustainable Development</th>
<th>National Developments - negative</th>
<th>Rosyth</th>
<th>Specific textual changes</th>
<th>National Developments – criteria</th>
<th>Glasgow Airport</th>
<th>Housing</th>
<th>Capital City status</th>
<th>Vision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen City and Shire Strategic Development Planning Authority</td>
<td>SDPA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aberdeen City Council</td>
<td>Local Authority</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Action for Planning Transparency</td>
<td>Local group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alison Lowe</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andy and Joni Bluefield</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ariane Loening</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Babcock Marine</td>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buckingham Hamilton and Ruskin Association</td>
<td>Resident assoc'n</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Shopping Centres plc</td>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who</td>
<td>Role</td>
<td>Welcome NPF2</td>
<td>Consultation – positive</td>
<td>Consultation - negative</td>
<td>A96 Corridor</td>
<td>Sustainable Development</td>
<td>National Developments - negative</td>
<td>Rosyth</td>
<td>Specific textual changes</td>
<td>National Developments - Criteria</td>
<td>Glasgow Airport</td>
<td>Housing</td>
<td>Capital City Status</td>
<td>Vision</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------------------</td>
<td>--------------</td>
<td>-------------------------</td>
<td>-------------------------</td>
<td>--------------</td>
<td>--------------------------</td>
<td>---------------------------------</td>
<td>--------</td>
<td>------------------------</td>
<td>---------------------------------</td>
<td>----------------</td>
<td>---------</td>
<td>---------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Cindy Courtillier</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Edinburgh Council</td>
<td>Local Authority</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clare Symonds</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diana Cairns</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doug Piggott</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forth Ports plc additional submission</td>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friends of the Earth Scotland</td>
<td>Env group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSP</td>
<td>Political party</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hillhead Community Council</td>
<td>Comm Council</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homes for Scotland</td>
<td>Industry group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jim Hammond</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiltarlity Community Council</td>
<td>Comm Council</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Midlothian Council</td>
<td>Local Authority</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mrs Aileen Campbell</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mrs E Holland</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Ayrshire Council</td>
<td>Local Authority</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who</td>
<td>Role</td>
<td>Welcome NPF2</td>
<td>Consultation - positive</td>
<td>Consultation - negative</td>
<td>A96 Corridor</td>
<td>Sustainable Development</td>
<td>National Developments - negative</td>
<td>Rosyth</td>
<td>Specific textual changes</td>
<td>National Developments - Criteria</td>
<td>Glasgow Airport</td>
<td>Housing</td>
<td>Capital City Status</td>
<td>Vision</td>
</tr>
<tr>
<td>----------------------------</td>
<td>-----------------------</td>
<td>--------------</td>
<td>--------------------------</td>
<td>-------------------------</td>
<td>--------------</td>
<td>--------------------------</td>
<td>----------------------------------</td>
<td>--------</td>
<td>--------------------------</td>
<td>----------------------------------</td>
<td>----------------</td>
<td>---------</td>
<td>--------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Pamela McLean</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paul Jenkins</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plane Speaking</td>
<td>Env Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning Aid for Scotland</td>
<td>Planning Aid</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ramblers Association Scotland</td>
<td>Env Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renfrewshire Council</td>
<td>Local Authority</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RSPB Scotland</td>
<td>Env Group</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scotland Before Pylons</td>
<td>Env Group</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scottish and Southern Energy</td>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scottish Education and Action for Development</td>
<td>Comm Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scottish Hydro Electric Transmission</td>
<td>Business</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scottish Property Federation</td>
<td>Industry Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scottish Wildlife Trust</td>
<td>Env Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEPA</td>
<td>SG agency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who</td>
<td>Role</td>
<td>Welcome NPF2</td>
<td>Consultation – positive</td>
<td>Consultation - negative</td>
<td>A96 Corridor</td>
<td>Sustainable Development</td>
<td>National Developments - negative</td>
<td>Rosyth</td>
<td>Specific textual changes</td>
<td>National Developments - Criteria</td>
<td>Glasgow Airport</td>
<td>Housing</td>
<td>Capital City Status</td>
<td>Vision</td>
</tr>
<tr>
<td>----------------------------</td>
<td>------------</td>
<td>--------------</td>
<td>--------------------------</td>
<td>-------------------------</td>
<td>--------------</td>
<td>------------------------</td>
<td>-----------------------------------</td>
<td>--------</td>
<td>------------------------</td>
<td>---------------------------------</td>
<td>---------------</td>
<td>---------</td>
<td>---------------------</td>
<td>--------</td>
</tr>
<tr>
<td>SP transmission</td>
<td>Business</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stirling before pylons</td>
<td>Env group</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stuart Duncan</td>
<td>Individual</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SDC Scotland</td>
<td>Govt Advisors</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vance Allen and Bill Rodger</td>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>7</td>
<td>3</td>
<td>19</td>
<td>6</td>
<td>18</td>
<td>10</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>