



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# SCOTLAND BILL COMMITTEE

Thursday 8 September 2011

Session 4

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**SCOTLAND BILL COMMITTEE**

**3<sup>rd</sup> Meeting 2011, Session 4**

**CONVENER**

\*Linda Fabiani (East Kilbride) (SNP)

**DEPUTY CONVENER**

James Kelly (Rutherglen) (Lab)

**COMMITTEE MEMBERS**

- \*Richard Baker (North East Scotland) (Lab)
- \*Nigel Don (Angus North and Mearns) (SNP)
- \*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)
- \*Alison Johnstone (Lothian) (Green)
- \*John Mason (Glasgow Shettleston) (SNP)
- \*Stewart Maxwell (West Scotland) (SNP)
- \*Joan McAlpine (South Scotland) (SNP)
- \*David McLetchie (Lothian) (Con)
- \*Willie Rennie (Mid Scotland and Fife) (LD)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

- Michael Moore MP (Secretary of State for Scotland)
- David Mundell MP (Parliamentary Under-Secretary of State for Scotland)

**CLERK TO THE COMMITTEE**

Stephen Imrie

**LOCATION**

Committee Room 2



## Scottish Parliament

### Scotland Bill Committee

*Thursday 8 September 2011*

[The Convener *opened the meeting at 10:00*]

### Decision on Taking Business in Private

**The Convener (Linda Fabiani):** Hello, everyone, and welcome to the third meeting of the committee. I remind everyone to turn off their mobile phones and BlackBerrys as they interfere with the sound system even if they are on silent. We have received apologies from James Kelly.

Item 1 is a decision on whether to take items 3 and 4 in private. Does the committee agree to do so?

**Members** *indicated agreement.*

## Scotland Bill

10:00

**The Convener:** Item 2 is evidence on the Scotland Bill from the United Kingdom Government. I welcome the Rt Hon Michael Moore and the Rt Hon David Mundell, and thank them for coming along today. I ask them to present the committee with short opening statements, and we will then move to questions.

**Michael Moore MP (Secretary of State for Scotland):** Thank you for the opportunity to appear before the committee today to continue our discussion in Scotland on the future of devolution, and the Scotland Bill in particular. The bill is the purpose of the committee's existence and the main focus of the Scotland Office. It is currently being piloted through Westminster alongside consideration in the Scottish Parliament, which is important.

As you are aware, we have introduced the bill to strengthen devolution and, in particular, to increase this Parliament's financial accountability. We are pleased that the bill was considered carefully in the previous session of Parliament, and endorsed overwhelmingly just before the election.

Since then, we have continued our process at Westminster, and responded to some of your predecessor committee's recommendations as well as the observations made—particularly in the Scottish Affairs Committee—during the bill's passage through Westminster.

We believe that the bill is very good and strong, and that it will substantially increase the powers and, in particular, the accountability of the Scottish Parliament. We are conscious, of course, that since May there has been a new political complexion to the Parliament. We have already had fairly extensive discussions with the First Minister and his colleagues about aspects of the bill that they would like to add or amend. We are currently considering those, and I am sure that we will discuss them this morning.

We have made clear that any further proposals for consideration must be based on three key tests, if I may put it that way. They must be based on detailed proposals and be capable of establishing a broad consensus, and they should, while clearly benefiting Scotland, not be detrimental to the rest of the United Kingdom. I am sure that, while scrutinising our proposals, you will also look carefully at the Scottish Government's proposals.

We have had papers on four of the six suggested areas, and we look forward to receiving

further papers in due course. We have begun to ask the Scottish Government some follow-up questions, and we look forward to discussing those issues—indeed, I have a meeting later today with the Cabinet Secretary for Finance, Employment and Sustainable Growth, and we will no doubt pick up on some of those themes.

We are very grateful for the opportunity to be here today, and we look forward to working with you. If we do not have all the answers to your questions, I am sure that we will find the means by which we can get the information to you.

**The Convener:** Thank you. Does Mr Mundell wish to say anything?

**David Mundell MP (Parliamentary Under-Secretary of State for Scotland):** I do not have anything to add to the secretary of state's statement.

**The Convener:** I thank you for your brevity, gentlemen—it is much appreciated. Before I open up to questions, I will pick up on one thing that the secretary of state said.

You said that the bill had been overwhelmingly endorsed by the Parliament. I am sure that you would agree, from looking at the terms of the legislative consent motion that was passed, that there were certain caveats to that endorsement.

**Michael Moore:** I am certainly not seeking to avoid the fact that conditions were attached, including the important condition that the legislation be brought back at a later stage for the Parliament's consideration, which is something that, of course, we intend to do.

**The Convener:** I would now like to open it up to members' questions. I suggest that we start with financial issues and then move on to other items.

**Richard Baker (North East Scotland) (Lab):** First, I want to explore the borrowing powers that have been proposed in the bill and which have been discussed at some length here. As it stands, the bill proposes to cap capital borrowing at £2.2 billion, although that can be changed by ministerial order. The previous committee concluded that that figure was too low and suggested that a figure of around £5 billion was more appropriate. The consensus here is that the provision is important in allowing investment in infrastructure at an important time and in creating stimulus in the economy. What discussions are you having with the Scottish Government on the potential to increase the £2.2 billion figure either in the bill or on a fairly short timescale by ministerial order?

**Michael Moore:** First of all, I welcome the recognition of the importance of the borrowing powers. Perhaps I should underline that we have brought forward capital borrowing powers, in particular, that go beyond the recommendations

made in the report of the Calman Commission on Scottish Devolution and that, in doing so, we recognise the importance of being able to use them not just to the Parliament but to the Government of Scotland.

In setting the £2.2 billion limit in the bill and the command paper, we have made it clear that that is a floor and that, although the amount can be varied in future, it will not be lower than what is stated in the legislation. In judging what was appropriate, we looked first at what would be required to get projects that are coming along, including the Forth replacement crossing, under way. More generally, however, we looked at the United Kingdom Government's overall borrowing ceilings and requirements. I promise not to get too distracted by talking about the broader economic debates or by reminding members of all the budget and deficit challenges that the UK Government faces, but I simply want to underline the fact that last year there was a £155,000 million gap between the taxes raised and the amount we were spending. Given the international context in Europe and elsewhere and what is happening to other Governments that are not taking firm measures, we must have a very credible and firm plan for debt reduction. That is what the Chancellor of the Exchequer has set out in his budgets, and we have also set out spending review plans to help us to reach that target. We believe that, within all that, we are allocating to the Scottish Government a substantial sum of money that will help it to get on with this.

Since the proposals were first brought forward, we have in response to representations from the Government and parliamentary observations recognised that it would be useful and advantageous to get access to that borrowing earlier. We have been responsive to that and, from this year, there will be a facility to access prepayments on that borrowing to help with some of the early costs associated with the Forth replacement crossing.

**Richard Baker:** More broadly, does that mean that you are open to the idea of accelerating timescales in order to access wider amounts of capital borrowing, which is something that was also endorsed by Parliament?

**Michael Moore:** We have said that the prepayment facility will be available ahead of the full availability of borrowing powers in 2015 in a period that is also clearly attuned to the UK Government's current spending review period. There needs to be clearer engagement with the Treasury on what those projects might be, whether they be the Forth replacement crossing or—an example that I have used in the past—the Borders railway, because if good projects are being proposed, the Treasury will not unreasonably

withhold its approval. As I say, we have accelerated the implementation of that facility from 2013 to this year.

**John Mason (Glasgow Shettleston) (SNP):** I will follow up on the question of borrowing. As I understand it, the Commission on Scottish Devolution mentioned prudential borrowing as a possibility—there would not be a fixed limit, but it would be based on what the Parliament or the Government could afford to repay. Such a mechanism is already in place for local authorities in Scotland and it seems to work fairly well. In the past, councils had problems with borrowing but, since prudential borrowing was introduced, borrowing has been based on what they can afford. For example, Glasgow City Council might knock down three schools that are underoccupied and build one new one, and the revenue cost savings themselves justify the borrowing. Is that not a possibility for the Scottish Parliament?

**Michael Moore:** I defer to John Mason as he has a long track record in local government, as well as in our two Parliaments, so he has seen the situation in the round. As I understand it—I do not claim to be an expert—the prudential regime is quite tight and controlled, more so than I would envisage the capital facility will be when it comes fully on stream in 2015, so the facility that we are offering might be better.

I hope that my memory serves me correctly when I say that, in the Scottish Government's representations on the matter, it has not specifically talked about borrowing in prudential terms, but I am sure that if that argument was made, we would look at it carefully.

It is important to underline not only that the figure of £2.2 billion is a floor and that the UK and international context is important in arriving at that figure but that we are setting up mechanisms whereby we can talk properly with each other through the joint Exchequer committee, which will shortly meet for the first time. As yet, we have not had any requests from the Scottish Government for prepayments through the facility that is in place, but we anticipate that that will come before too long.

**John Mason:** I will press you a little bit more. It seems to me that, as soon as we talk about figures—be it £2 billion or £5 billion or whatever—there is room for a bit of disagreement and all the rest of it, whereas the whole idea of prudential or wise borrowing, or whatever you want to call it, is that in some ways it is self-controlled, because the finance director of the council or, in the case of the Scottish Government, the Cabinet Secretary for Finance, Employment and Sustainable Growth has to justify to members of the Scottish Parliament that we can afford to repay the money and show where the savings are. There are quite

a lot of controls in the process. I know that the Treasury still has a veto, but it has very seldom used it, because the system has worked. The Government may not specifically have asked for prudential borrowing, but the Scotland Bill Committee may want to think beyond where the Government is going. Is that an option that would at least be considered?

**Michael Moore:** We should not lose sight of the fact that I anticipate that the borrowing capability will not be without conditions from this Parliament. I anticipate that the Parliament will heavily scrutinise what the Scottish Government wishes to spend such money on and there will be lots of requirements to understand whether the borrowing is affordable and so on, because you cannot simply go out on a splurge and spend the whole thing and be done with it.

I remind you, if I may repeat my apologies for repeating myself so much so early in the meeting, that the cap, as it stands, has to be seen in the wider context of the challenges that we face not only in the UK but internationally. Of course, we will have dialogue and discussion and, if there are ways of finessing and refining the system, we will listen carefully to the arguments.

**Nigel Don (Angus North and Mearns) (SNP):** Good morning. First, I thank Mr Moore for pointing out the figure of £155,000 million, which is not a number that I want to get my mind round, but it is very big. I suggest that, in that context, for us another billion here or there—sorry, another million here or there—is, frankly, another million here or there. In the context of British debt, why is that sum really so substantial? Why does it matter?

**Michael Moore:** I am not sure that I would be quite so carefree with another £1 million or £1 billion of taxpayers' money—

**Nigel Don:** I am sorry—the mention of £1 billion was a slip of the tongue.

**Michael Moore:** I appreciate that.

May I say that the figure is a historically unprecedented one, which we do not intend to establish as the norm. One of the challenges for us as a Government, and what the chancellor's plans clearly set out, is how we reduce that deficit over the spending review period and reduce net debt as a percentage of gross domestic product by the end of the Parliament. There are some pretty important challenges for us and this is part of that overall process.

10:15

**Nigel Don:** Okay, but I do not think that you would deny that £1 million—which, incidentally, would be paid for from our revenue budget,

because it would be our responsibility—is not significant in the grand scheme of things, given the scale of the problem that you inherited. I am sure that you would recognise that.

I want to pick up on another point to do with capital borrowing. As I understand it, the level of capital borrowing that the Scotland Bill provides for is a fraction of the capital budget. That seems to be counterintuitive in that we will be able to borrow more when our capital budget is relatively high and less when our capital budget is relatively low. That is counterintuitive because I would have thought that we would want to smooth out the peaks and troughs. The days when the capital budget from the UK Government is relatively low will surely be those when we will want to borrow.

**Michael Moore:** The facility will be there. In the early stages, the level of borrowing will be scored against careful proposals for particular projects—I am not suggesting that the Scottish Government would put forward anything less. It is important to underline that we are talking about a facility that is not there at the moment, but which will enable the Scottish Government, powered by its majority in the Parliament, to get on with the infrastructure tasks that it wishes to perform.

**Nigel Don:** But would you not accept that giving us more when we have more and less when we have less is a counterintuitive approach to borrowing?

**Michael Moore:** That is not how I would characterise what we propose. I can see that there is some attractive logic in what you are saying, but that is not how I would characterise what we intend to do.

**Joan McAlpine (South Scotland) (SNP):** Thank you for coming to speak to us today, Mr Moore.

I am glad to hear that you are not carefree with millions, as I wanted to ask you about that. When you appeared before our predecessor committee, which was chaired by Ms Alexander, you were asked what calculations the UK Government had done about the loss to Scotland's budget that your rather complicated income tax proposals would result in. You told the committee that, between 1999-2000 and 2010-11, they would have resulted in a total reduction in Scotland's block grant of £691 million. Do you agree that that is quite a substantial sum?

**Michael Moore:** Yes, it is certainly a substantial sum, but in the argument about how the proposals would apply looking forward, I think that it was agreed that the figures netted out at a substantially lower level than that amount.

**Joan McAlpine:** I do not think that that was agreed. Do you know yet by how much the

Parliament will lose out as a result of your income tax proposals? You were not sure when you appeared before our predecessor committee.

**Michael Moore:** For reasons that were well explained at the time, the precise mechanisms by which the proposals will be implemented and when that will happen are matters for the future and will depend on the joint Exchequer committee's deliberations.

**Joan McAlpine:** Why are they matters for the future? You have had quite a long time to think about this.

**Michael Moore:** The financial years to which the proposals will apply are in the future, by which time we are confident that we will have recovered from the deepest recession that we have known since the war and that we will be in very different financial circumstances. It will depend on the mechanism that we choose to use, which will be—

**Joan McAlpine:** But you have not chosen the mechanism yet.

**Michael Moore:** No. Again, as we made clear—

**Joan McAlpine:** Will the mechanism be agreed by the Scottish Parliament? Will the Parliament have a veto on proposals that could cost us £691 million over 10 years?

**Michael Moore:** I do not accept that that is what the cost will be, but—

**Joan McAlpine:** But you said that when you appeared before our predecessor committee.

**The Convener:** Will you let the secretary of state finish, please?

**Michael Moore:** For the future, we are determined to look at the mechanism to ensure that we get something that is appropriate for the budgets of the Scottish Government, the Scottish Parliament and the UK. We said in the command paper that we would look at a range of mechanisms, including some of the ideas of the Holtham commission, and that remains the case. I do not expect the finance secretary—or anyone else—to agree to any mechanism that is not properly and appropriately thought through. It will be for him to liaise with the committee and the rest of the Parliament on how those matters are debated here.

**Joan McAlpine:** At the beginning of the meeting, you told Ms Fabiani that you accepted that the Scottish Parliament would have to approve the bill. Do you seriously expect the Parliament to approve a bill that will leave it £691 million—nearly £700 million—worse off?

**Michael Moore:** I do not accept that characterisation but, on the generality of the bill, I hope that all colleagues from different parties will

recognise the substantial improvements that it represents in the Parliament's financial accountability and the powers available to the Parliament. Through the bill, we will get a much better settlement for Scotland. I repeat that I do not accept the figure that you used as typical of what will happen in future.

**Joan McAlpine:** You do not accept it, but it was your figure.

**Michael Moore:** For a particular point in time in the past, during the deepest recession that the country has known since the war, with the mechanism for determining how the adjustments will be made yet to be established.

**Joan McAlpine:** I find it strange that, even with the entire power of the UK Treasury and all the facilities that you have, you still have not come up with a mechanism to tell us how much worse off the Parliament will be.

**Michael Moore:** I do not accept that it will be worse off. I will happily repeat that however many times I have to do it.

If I were to suggest to a committee of MSPs, or to the finance secretary when I meet him later, that we are simply going to impose a system without due consideration and consultation, you would be alarmed. We are committed to discussing the arrangements, and technical discussions are already taking place between Scottish Government officials and the Treasury and other UK Government officials. That will be a careful process because we are making big changes and we are looking at a process that sets up the income tax powers to be used for 2016, and in which the final adjustment to the block grant might not happen until as late as 2020. There is still quite a long way to go.

**Joan McAlpine:** I am glad to hear you acknowledge the role of this Parliament in that process. Do you accept that the Parliament should, hypothetically speaking, have some kind of veto over when those tax powers are implemented, so that the Parliament does not have to implement them until we are sure that they will not be damaging to Scotland and the finances that we use for Scotland's public services?

**Michael Moore:** There is a balance to be struck. It is clear that we have established the enhanced accountability that is at the heart of the legislation, so we are not proposing to postpone the implementation indefinitely. As I said earlier, we have a long period of careful consideration ahead of us during which we will get evidence on income tax forecasts against actual receipts, we will improve the quality of the data that we have, and we will be able to have a better informed discussion about the income tax proposals and the amendment that will be made to the size of the

block grant in due course. We have a long time to consider that and we are determined that we will get it right with you, as parliamentarians, and with the Scottish Government.

**Joan McAlpine:** You say that you have a long time to consider those issues, but the Parliament will not have a long time to consider the bill. We will be asked to approve the bill, but we will still not know its implications for Scotland's budget.

**Michael Moore:** I accept that I am not going to persuade you about the nature of the changes, but I continue to be more optimistic about the future on that front. I would not be here if I did not believe that the bill will be to the benefit of the Scottish Parliament, Government and, ultimately, people. However, in a few months, when you come to make your decision about the bill, I hope that you will be reassured about the processes that are in place and the way in which the joint Exchequer committee and other mechanisms between the two Governments will work to ensure that we get the right outcomes.

**David McLetchie (Lothian) (Con):** I will follow on from Joan McAlpine's line of questioning. Am I correct in thinking that the policy intention on the grant reduction mechanism is that it should, in the first instance, be neutral in its effect? In other words, when the transfer of the tax power to the Parliament on the one hand and the offsetting reduction in the level of the block grant on the other come on stream, there should be a neutral result overall. It is not intended to confer either a surplus or a deficit on the Parliament. Is that the policy intention?

**Michael Moore:** It is absolutely at the centre of the policy intention and what we have set out in the bill. That is why careful consideration is needed to ensure that we have the technical means to do it appropriately.

**David McLetchie:** Thank you. Ms McAlpine referred to some illustrative figures—produced by yourself—which I recall did indeed generate a figure of £691 million over a particular timescale. However, is it not also the case that other evidence provided to the Scotland Bill Committee showed that, when the grant reduction mechanism postulated by the Scottish Government itself was applied to the figures over the comprehensive spending review period that we are in, that generated a surplus for Scotland of nearly £2 billion over that four-year period?

**Michael Moore:** Your memory is correct and I am sure that that evidence will be presented to this committee for you to consider further.

**David McLetchie:** Indeed, it is already a matter of record. I am very happy to correct and balance up the presentation on that particular subject.

Could I move on to the issue of corporation tax, convener.

**The Convener:** If you do not mind, I will call another couple of members who want to talk about income tax. I think that it would be better to keep the theme going.

**David McLetchie:** That is fine.

**Stewart Maxwell (West Scotland) (SNP):** Good morning, gentlemen. I was very pleased to hear about your reasonableness in the discussions that you would have with the Scottish Government and your confidence that all the proposals in the Scotland Bill with regard to income tax would be agreed in detail with the Scottish Government and would therefore in effect be accepted by the Government and the Parliament. Given that you are taking such a reasonable position and are so confident about your position, surely you would agree that there would be no problem whatever in the Scottish Parliament taking a view as to whether it agrees with your position at the point at which the income tax proposals are due to be implemented. In other words, if the Scottish Parliament does not agree that they are either neutral or to the benefit of the Scottish people, it should have the right to say that we do not wish to implement them.

**Michael Moore:** There is the important new constitutional structure of the joint Exchequer committee. It is unprecedented to have two Governments meeting to discuss tax issues. The committee will be chaired alternately by the Scottish Government and the UK Government. It will be an important body and place for us to consider things in detail. I am hoping that, through that mechanism, we will provide a facility that is acceptable to the Scottish Government. It would be very strange to come forward with something that is not acceptable to the Scottish Government. It will be a matter for the Scottish Government then to determine how it wishes to get the support, or otherwise, of the Parliament for the proposals to which it is agreeing.

I accept—but I hope that we can establish the trust a bit better—that some people have expressed worries, which you are referencing, that somehow the proposals would be foisted on the Parliament at a time when it is completely inappropriate to do so or in an inappropriate way. As a Scot and a Scottish politician representing 72,000 people in the Borders, and somebody who will pay the tax, I have no wish for us to get into a situation where that is the case.

We are in the early stages of the discussions. We have not got close to the proper technical consideration of all the different possibilities. I am sure that, through the appropriate mechanisms of

this Parliament and Westminster, lots of scrutiny will follow.

**Stewart Maxwell:** I have no reason to doubt that; I accept what you have said and am delighted to hear it. However, I am just trying to get to the nub of the issue, which is that, even accepting everything that you have said about the new committee, the joint chairmanship and all the detail, if the Scottish Parliament says at the end point, “No, we do not agree and we do not wish to implement these powers,” will the UK Government accept that position?

**Michael Moore:** I slightly despair sometimes that we set up our constitutional debates in a way that means that we can anticipate a high noon somewhere years down the line.

**Stewart Maxwell:** I did not mean that at all. I am asking whether the UK Government would accept that position?

10:30

**Michael Moore:** I hear those concerns and, of course, I expect you and your colleagues to return to that issue. We have had elements of this debate with some of your party colleagues in Westminster during consideration of the bill.

The precise arrangements for implementation will need to be considered carefully, but I stress that the transfer of the income tax powers to the Parliament, and the accountability that goes with that, is at the core of the bill. We need to ensure that that happens, but we want to do it in a reasonable, straightforward and businesslike way. That is why, at this early stage—seven or eight years away from some of the big decisions—we are ensuring that the Governments and Parliaments have proper ways of discussing the matter.

**Stewart Maxwell:** You mentioned that the intention is to implement the income tax powers in 2016 with an adjustment in 2020—I think that those were the dates that you used. That is quite a gap between the implementation of the tax and the adjustment to deal with the inaccuracies in Treasury forecasts. [*Interruption.*] You laugh.

**Michael Moore:** No, no.

**Stewart Maxwell:** I will take one step back. Will you give me the figures for how accurate the Treasury forecasts for income tax receipts were over the past few years?

**Michael Moore:** I am afraid that I do not have those figures to hand, but let me deal with the important technical point. Assuming that the bill becomes an act, we will from the beginning of the next financial year, through the Office for Budget Responsibility, begin forecasting Scottish income

tax receipts and developing the mechanisms that will allow us to trap the data more carefully. Therefore, we will build up the expertise in forecasting receipts and comparing forecasts against actual receipts that is essential to the mechanism and to the Treasury.

The Treasury—I hope that it does not scrutinise this meeting too carefully—does not always get its forecasts right. For that reason, there will be flexibilities in the arrangements, such as the ability to establish in advance a Scottish cash reserve of £125 million and the ability subsequently to use the borrowing powers to deal with the gaps between the forecast and actual receipts. Having predicated its spending intentions on particular tax receipts, the Scottish Government will have capacity to deal with dips or surpluses as they come along.

**Stewart Maxwell:** You expect that the Treasury will be able to improve its accuracy by analysing Scottish tax receipts over the next three or four years. My understanding is that the UK Treasury has existed for some time, but that despite the decades—perhaps hundreds of years—of forecasting income tax receipts, its accuracy rate is quite poor. Perhaps you will go back and look at the accuracy rate of the income tax forecasts. My understanding is that it is as much as 7 per cent wide of the mark. Given that, why would it be acceptable to use the borrowing powers to fill some of the gaps in the estimates and wait for an adjustment in income tax receipts some three years down the line? Would it not be better to have much more rapid adjustments? Surely figures come in quarterly or annually. Why wait three years and expect us to deal with the inaccuracies in the Treasury's forecasts?

**Michael Moore:** I am sorry, but I need to understand where your three-year concept comes from.

**Stewart Maxwell:** You said it. You said that the tax powers would be implemented in 2016 and that the adjustment would be in 2020. My understanding is that the final adjustment will be three years after the year of implementation.

**Michael Moore:** I thought that you meant that you would get to use the borrowing powers three years after the variation.

**Stewart Maxwell:** No. You said that the borrowing powers could be used to fill any gaps within that period.

**Michael Moore:** The borrowing powers that I was talking about were the capital borrowing powers. The powers to deal with tax variation will obviously come in at the same time as the tax.

We are starting the process next year and—again, with respect to my colleagues in the

Treasury—the Office for Budget Responsibility will be mandated to go in and look at the stuff very carefully and to work up what it requires technically to have at hand to be able to do the predictions.

Again, if I was sitting here and saying that there is no facility to cope with variations between forecasts and reality, I think that you would be rather more unhappy with me than you are in your current line of questioning. My judgment is that by beginning to build up the experience and the data from next year we will get ourselves to a good place by the time the tax powers are being used, and that the risk that comes to the Scottish Parliament and the need to use the powers will not come until the adjustment has been made. In the early years, the Parliament can set the tax rate, but it will not need to deal with the risks between budget and outcome—that is inherent in the transitional phase.

On a number of levels—how carefully we are approaching it, how long we are taking to do it and the very nature of the transition—we have a lot of protection against the risks that you are worrying about.

**Stewart Maxwell:** I admire your optimism about the Treasury forecasting much better in the next three or four years than it has over the past 100 years. That will be interesting to see.

However, I come back to the point that I made. You talked about the transitional period. Why stick to a period beyond the transitional period and wait three years before the adjustment is made? It does not make sense to wait three years before an adjustment is made, instead of making the adjustment as we go along, which would deal much more quickly with the problem of inaccurate forecasting.

**Michael Moore:** I think that we might be talking slightly at cross-purposes, so I apologise if I misunderstood your question. The powers will exist to deal in real time with discrepancies between income tax forecasts and outcomes, whether we get unexpected surpluses or unanticipated deficits. You might recall that in the earlier version of the command paper on our proposals we suggested that the Scottish Government should absorb the first £125 million of any shortfall between forecasts and outturn on income tax; that has gone. Likewise, we recognised the need to be able to build up a reserve that can also be used ahead of the borrowing powers, and that is now part of our proposals, following my written ministerial statement with the Chancellor of the Exchequer in mid-June.

How we calculate adjustments to the block grant brings us back to what I said about the work that

we will do through the joint Exchequer committee. We will look at methodologies other than the one that is set out, such as the approach that has been proposed by Holtham, to ascertain the most appropriate way forward.

**Stewart Maxwell:** I admire your optimism, but I remain unconvinced about the need for a delay in relation to the adjustment period. I am also unconvinced by the idea that we would take money out of current spending to build up a reserve to deal with inaccurate Treasury forecasts. That does not seem to be a great deal for us, to be frank.

**Michael Moore:** I think that inherent in any Government in the world and in any system of financial accountability is the basing of spending plans on projections. In relation to the work of the OBR, you characterise the approach as far as the Treasury is concerned, but it is clear that the Scottish Government will also be involved in scoping and monitoring and I am sure that the Parliament will take a close interest in the work that is being done.

I do not think that there is a way round the fact that everyone has to have some way of forecasting and then dealing with discrepancies in the future—otherwise we would continue as we are just now and say that, based on funding formulas and Government expenditure plans at UK level, the Scottish Parliament and the Scottish Government will know exactly what they will spend next year, the year after and the year after that. Accountability involves a degree of risk.

**Stewart Maxwell:** We are not going to agree on the matter, so we should move on.

**The Convener:** Is it the Treasury that informs the Office for Budget Responsibility?

**Michael Moore:** I apologise, convener—I am not sure what you mean. Do you mean instructs it or gives it its remit?

**The Convener:** No. Is it the Treasury that gives the information to the Office for Budget Responsibility?

**Michael Moore:** The data will come from Her Majesty's Revenue and Customs. A lot of information gathering needs to begin, which is why we are starting it next year. The basis of that information will, of course, be fully open to scrutiny.

**The Convener:** So, a part of Government that admittedly makes a lot of mistakes and is inaccurate is going to be working with the Office for Budget Responsibility to put together the proposals for the Scottish Parliament.

**Michael Moore:** The Office for Budget Responsibility is independent of the Treasury and

the Government, but it must draw its figures from somewhere. It will base them on the information that HMRC has and, from next year, we will be looking more carefully at how we gather that information.

**The Convener:** Does it use the Treasury model?

**Michael Moore:** The OBR uses whatever model it wishes to use.

**The Convener:** What is it using at the moment? Is it using the Treasury model at the moment?

**Michael Moore:** It will have started with the Treasury model. I am sure that Mr Chote, who has given evidence to other committees here, will be delighted to set that up at the appropriate moment when the remit is given to him and his colleagues to get on with the job.

**Stewart Maxwell:** I think that the answer is yes.

**Joan McAlpine:** Can I ask a quick question?

**The Convener:** Is it on this particular point? I am aware of the time and we still have other subjects to discuss.

**Joan McAlpine:** You have said that HMRC will inform the Office for Budget Responsibility's figures. Do you not agree that it would be much fairer if HMRC answered to the Scottish Parliament as well as to the UK Parliament?

**Michael Moore:** The governance of HMRC is appropriately set out. I do not think that there is any shortage of willingness on its part to come before committees of the Scottish Parliament, as it demonstrated during the Scottish variable rate inquiry in the previous session of Parliament. I do not think that anybody here need worry about the accountability of HMRC for information on what it produces for the OBR.

**Joan McAlpine:** In that case, why have you not made adjustments to the bill to ensure that HMRC is properly scrutinised and answerable to the Scottish Parliament in the same way that it is answerable in London?

**Michael Moore:** I do not agree that it is necessary to make it statutorily answerable.

**Joan McAlpine:** Why not?

**Michael Moore:** I have just said. Its willingness to appear before the previous Parliament's committees—which I am sure it will demonstrate again—shows that it will be as open as you will need it to be.

**The Convener:** Thank you. I have one very quick question. In one of your answers to Mr Maxwell you mentioned the proposals for adjustments to the block grant, which will be jointly

discussed. Do you have an idea when those will be available to the Parliament?

**Michael Moore:** We have not begun to discuss them in detail with the Scottish Government, so it would be premature to put a timescale on that.

**The Convener:** Mr Mason has the last question on income tax.

**John Mason:** My question follows on from what Stewart Maxwell said. You use the word “accountability” quite a lot in your written submission. What is your argument for saying that the bill will make the Scottish Parliament more accountable? What we have heard so far this morning seems to be very complex. We are splitting income tax, there are going to be forecasts, there are the HMRC figures, there is the Treasury, there is the Office for Budget Responsibility, and there is our finance secretary here, which seems to be quite a tenuous link in the whole thing. We are also talking about a possible three-year delay in adjustments and Parliament in one session spending money because the forecast was optimistic and the next Parliament suffering because there has been a readjustment. Is not the whole system too complex for the public to understand, meaning that the Parliament will not be accountable? Would not it be better just to give the whole of income tax to the Scottish Parliament?

**Michael Moore:** I am sure that you and your colleagues will continue to make that proposition, Mr Mason. I believe that cutting the rates of income tax that are levied in the UK by 10p at each level and then requiring the Scottish Parliament to establish either the same or a different rate for people in Scotland will bring a whole new dimension to the political debate that we have in Scotland about our public services—whether we should invest more in them through higher taxes or seek to boost the economy, if that is the argument that people want to advance, by reducing taxation—not just in this place, but throughout Scotland, particularly during elections.

10:45

Frankly, the Scottish variable rate has not featured strongly since the first Scottish Parliament election, although certain parties said in their manifestos that they wished to use it. The bill will make it a requirement. Having to vote on taxation and to link that to the spending choices that we make is a very important discipline for all politicians.

**John Mason:** I completely agree, so why not extend it further? Another idea that the Scottish Parliament might want to consider is having different people in society pay different shares. The whole tax take might be the same, but we

might want to have the higher rate a bit higher and the lower rate a bit lower—as I think your party managed to do at Westminster—and change the allowances. Why should all that not be part of the accountability?

**Michael Moore:** That is because, again, the ability to use the tax system as a redistributive mechanism is something that we believe should remain at UK level. The complexities that one can introduce through personal allowances, tax reliefs and different bandings are of great advantage to the UK within the simplicity of having a unified system across the UK. We will obviously make mechanisms available through the procedures that we will set in place to ensure that, if we change things at Westminster, the block grant will be adjusted accordingly. I appreciate that that is a different set of arguments, but we think that the central accountability issue is well addressed by our proposals.

**John Mason:** I will not extend that to any length, but you and I are both accountants, so for you to say that the UK income tax system is in any way simple is quite amazing.

**Michael Moore:** I apologise. If I suggested in any way that that is the case, I withdraw it immediately.

**The Convener:** Thank you, John. I am promised by Ms McAlpine that she has a tiny question on this issue—she is getting only one. I am keen to move on to corporation tax.

**Joan McAlpine:** Thank you very much, convener. The Scotland Bill command paper suggested that the cost of implementing the complicated income tax changes is going to be £45 million. When you appeared before the committee on 3 February, you said that the £45 million figure is provisional and heavily caveated. Can you tell us now what you think the cost of implementation will be?

**Michael Moore:** I am grateful to you for quoting such sensible observations from February. I would simply repeat them today because, again, the detail of the caveats that I gave included the need to consult the Scottish Government about the details that it wants in the income tax system on pay slips and so on. Also, until we know precisely what information will be required and have looked in-depth at the systems and so on, it would simply be premature to go beyond that provisional estimate. Clearly, we all have a collective interest in minimising the cost of those systems. We are absolutely committed to that. It is another issue that I anticipate we and our colleagues in the Scottish Government will pay a lot of attention to.

**Joan McAlpine:** The Institute of Chartered Accountants of Scotland estimated that the figure would be £150 million. You said that we all have

an interest in the costs. Can you clarify who is going to pick up the costs? The understanding is that if the UK Government passes legislation that affects devolved Governments, the UK Government should pick up the cost.

**The Convener:** Last word on the subject.

**Joan McAlpine:** Will you pick up the cost?

**Michael Moore:** For the reasons that have been well rehearsed in previous discussions with your predecessor committee, the answer is no, because there is a well-established principle that the costs of devolution are met by the Scottish block grant. Therefore, the costs of the system will come from the block grant.

**The Convener:** I am sure that that debate will carry on. We are moving on now to corporation tax. I have Willie Rennie, followed by David McLetchie.

**Willie Rennie (Mid Scotland and Fife) (LD):** Considering the proclaimed positivity of SNP members in recent months and particularly since the election, I am surprised by their negativity this morning towards these substantial proposals. Perhaps they will reflect on their previous comments.

I know that the Treasury and the Scotland Office have done considerable work on the effect of devolving corporation tax to Scotland. I would just like to get a flavour from you of what the cost would be of cutting corporation tax and of the cost of a separate administration of the corporation tax system for Scotland.

**Michael Moore:** It is a pleasure to be able to debate these issues with you in this committee, Mr Rennie. Without any reference to your early influence on some of the proposals, I emphasise that we have received—as I said in my opening remarks—requests from the Scottish Government for six further areas to be considered. Corporation tax is clearly an important part of that. The Scottish Government instigated a short consultation period on the prospect of devolving corporation tax. That period concluded earlier this week, and we look forward to hearing detailed proposals. The same goes for excise duties, which is another area for which we have yet to see a detailed case.

At UK level, we have started to consider issues that would apply were certain proposals to go ahead. In particular, we have considered the impact were Scotland to take control of corporation tax and reduce the rate to the Irish level, which is 12.5 per cent. It has been widely commented on in the media, and it was debated in the House of Commons at our report stage, that provisional estimates suggest that the cost to the Scottish budget of reducing the rate to that level

could be as much as £2.6 billion. That is what could happen once a decision on such a big policy change had been taken. Clearly, £2.6 billion is a big chunk of our budget. Some real care would be required in managing where any reductions would be made.

Costs would arise in many different areas. Obviously, there would be direct losses from businesses that would have paid a higher rate. Costs would also arise if people transferred their businesses from other parts of the UK to Scotland. In behavioural terms, there is what is known as tax-motivated incorporation—in which, with a lower level of corporation tax, individuals, sole traders and others decide to incorporate rather than remain as part of the income tax arrangements.

Beyond that, considerable administration costs would obviously arise. Regardless of whether or not the rate were reduced, considerable costs and complexities would be involved. It is entirely legitimate to debate and consider all these issues, but we need to do so with our eyes open. We need to understand what all the costs would be. My colleague David Gauke, the Exchequer Secretary to the Treasury, wrote to the finance secretary earlier this week asking him for his views on some of these issues. We look forward to hearing his reply, and to hearing detailed proposals when they are ready for us to hear.

**Willie Rennie:** At this stage—four years after Calman started, and halfway through the parliamentary process at Westminster—I am a bit surprised that you have not received detailed proposals on excise duty in particular, or on corporation tax. On the other side of the argument, would you outline the potential for Scotland to secure some economic benefits from any cut in corporation tax? Have you analysed the benefits rather than simply considering profit shifting, although that is what some people fear might happen?

**Michael Moore:** A number of academics are working on this, but we have primarily been considering the costs. The Scottish Government is working on arguments, and we look forward to hearing what it thinks the economic benefits will be, and what it thinks will happen that is not simply a distortion of activity that would happen elsewhere in the UK or elsewhere in the world.

**David McLetchie:** My recollection of the report of the previous Scotland Bill Committee was that the proposal to devolve rate-setting for corporation tax might be considered for Scotland if the Government went ahead and gave such a power to the Government and Assembly in Northern Ireland. The report was qualified by a reference to what was happening in Northern Ireland and to whether a comparable approach might be taken in

Scotland. Can you tell us where matters stand with regard to Northern Ireland, and when one might expect a decision from the Government on whether it intends to devolve that power to the Northern Ireland Assembly and Government?

**Michael Moore:** The consultation finished in June, and the Treasury and others are now considering carefully the many submissions that were made. An announcement has not been made, but I anticipate that one will be made—without rushing the conclusions, as there is a lot to consider—as soon as is appropriate.

We established in discussions with the predecessor committee—I am happy to go back to this again—that there are clearly big differences between the situation in Northern Ireland and that in Scotland in terms of the structure of the economy and the profile of businesses. In Scotland we have not only a greater cross-section of businesses in terms of size, scope and ownership structure, but a much greater range of companies that have headquarters and branches all over the United Kingdom. We have a lot of big businesses that have a presence all over England, Wales and Scotland, but which may not have a presence in Northern Ireland. That is an extra factor, but we have said that we need to reflect carefully on the issue. We must also consider with our colleagues in Westminster and with you as a committee and as a Parliament any consequences that might follow from the decision that we take.

**David McLetchie:** It remains Her Majesty's Government's intention, as I understand it, to reduce corporation tax levels to 23 per cent. Can you give us an idea of how the UK Government expects that reduction to impact on revenues? Does it for instance assume, because the UK Government has control of all tax revenues and all taxes, that if the corporation tax rate is reduced, there will be a burst of growth in the short term and all other taxes will grow, and we will end up with an offsetting surplus in other revenues?

**Michael Moore:** We are not seeking to turn ourselves into some great tax haven, but we are absolutely determined to make ourselves one of the most competitive countries in Europe and in the G7. We have slipped quite considerably in recent times. We have seen the danger of going the other way, which is that companies were potentially going to leave the UK, rather than there being the great upside of bringing companies to the UK.

The trend in international tax regimes is that corporation tax is reducing. That is the context in which the UK is having to consider its policy options. I am happy to write to the committee with details of the broader UK assumptions on that, but I underline my first point: the reduction will not be done to create tax-haven status.

**David McLetchie:** I recollect that when David Gauke gave evidence to the predecessor committee, he said that the Treasury—which controls all taxes—assumed that a 1p reduction in corporation tax would lead to an £800 million reduction in UK tax revenues, and that it did not anticipate an offsetting increase in revenues from other tax sources such as VAT.

I presume that there is no evidence, based on the UK Treasury's experience, to suggest that if we had control of all the taxes in Scotland, reducing corporation tax would necessarily generate any surpluses from other sources that would offset the revenue that would be lost.

**Michael Moore:** That is an interesting proposition, Mr McLetchie, and I am sure that we will debate it further, but essentially you are right.

**Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP):** Rather than depending on forecasts from the UK Treasury and on underlying assumptions that we can all no doubt generate our own versions of, we have hard and fast empirical evidence from a European Union member country that has reduced corporation tax over time: the Irish Republic. There was not a sudden reduction in corporation tax; it was phased over time. Is the secretary of state aware that the Irish Government lost revenue in any year of that reduction?

**Michael Moore:** The Republic of Ireland is an interesting example to choose, given the recent financial experiences and the difficulties there now.

**Adam Ingram:** On the particular issue of corporation tax—

11:00

**Michael Moore:** The context is very important. Not only is the Irish economy quite different to ours, but Ireland had first mover advantage on that idea, which brought in some international corporations that are very sensitive to the tax rate—that was explicit in bringing them to Ireland in the first place. You will see the pressure elsewhere in the European Union about the extent to which, in helping Ireland escape from its terrible financial circumstances, other countries have difficulty with the Irish corporation tax level. As a UK Government, we are supportive of the Irish and where they are. We want to help them in every way possible to get out of their difficulties. You cannot draw valid comparisons between the way in which Ireland reduced its taxation rate and the way in which Scotland conceivably might in the future, given the different financial circumstances and what we have learned about the vulnerability of the Irish economy more generally.

**Adam Ingram:** Are you denying the possibility that a reduction in the rate of corporation tax will have a positive impact on economic growth?

**Michael Moore:** It is possible to make the argument and many academic studies show different impacts. I am happy to see that as part of the debate, but it is lacking so far. No doubt it will feature when the Scottish Government brings forward its detailed proposals, which I anticipate in the near future.

**Adam Ingram:** You will forgive me if I am rather dubious about some of the figures provided by Her Majesty's Revenue and Customs. For example, it talks about a £2.6 billion hole in Scottish revenues, when we know that that is exactly the figure raised in Scotland through corporation tax. We are not advocating the complete abolition of corporation tax. When these figures are bandied about, it sets alarm bells ringing about whether we are getting kosher figures from the UK Government.

**Michael Moore:** I respect your right to be sceptical on all matters, as all parliamentarians ought to be. David Gauke will appear before this committee in a few weeks' time and will be happy to answer more on the details. I am sure that the committee members have had a chance to look at the note published by Her Majesty's Revenue and Customs. It was gone through with great care and carefully says that these are provisional figures and are based on projections about where the UK corporation tax base will be in a number of years' time, which is an answer to your other point.

**The Convener:** Is that the same Treasury that is projecting this figure?

**Michael Moore:** I am sure the committee will have an interesting session with Mr Gauke.

**Stewart Maxwell:** To carry on from where Mr Ingram left off, can I pin you down on whether the UK Government accepts the "Government Expenditure & Revenue Scotland 2009-2010" estimate of corporation tax income in Scotland as £2.6 billion?

**Michael Moore:** The GERS figures are part of the data from which HMRC has drawn some of its assumptions and workings. We can provide the precise way in which that is worked out and Mr Gauke can answer questions on it later.

**Stewart Maxwell:** I am sure that he will, but I am trying to figure out whether the UK Government accepts the GERS figures on corporation tax revenues. If it does, and it would be strange for it not to, I am at a loss to understand why halving corporation tax could cost 100 per cent of the revenue from corporation tax. Can you explain that? What underlies that assumption and how did you get to that figure?

**Michael Moore:** The figure is based on future projections for the UK as a whole, rather than current ones, so it is not anticipating wiping it out in the current year. Otherwise, the specific modelling and the methodology underpinning the figure are set out in the paper.

**Stewart Maxwell:** So it is a future loss of £2.6 billion. What is the UK Government's estimate of revenue in the years in which that £2.6 billion will be lost?

**Michael Moore:** I do not have that in front of me, but we can get that to you.

**Stewart Maxwell:** That would be helpful. Why has no assessment been made of the potential impact of competitive advantage or of any change to Scotland's economy as a result of having an extremely competitive corporation tax rate? That is missing from these figures.

**Michael Moore:** No. With these figures, we were trying to get a very clear idea of some of the areas that we will need to look very hard at to ensure that we understand the costs of taking this particular policy decision. As Mr Rennie said earlier, the Scottish Government needs to make the case for the economic benefits that will come. I am prepared to accept that there will be offsets to this, but we need to see the detailed case and the arguments. The question is whether the benefits offset what we have set out here in a way that is not inherently costly and does not create volatility and uncertainty in the system for the UK as a whole and Scotland within that.

A series of issues needs to be considered. This is part of the picture—I am not professing that it is the whole picture.

**Stewart Maxwell:** I agree. Of course we have to make the case for this move, if it is what we want to do, but you must accept that it is the responsibility of the UK Government and the Treasury in particular to explain in detail how they have come up with this £2.6 billion figure, given that, as you have already said, that is the total revenue take?

**Michael Moore:** Clearly we are not going to agree on that last point, but there is a seven-page document from HMRC, which you must have seen already, that carefully goes through the methodology in the paper. These are provisional figures, which we are happy to refine, but I hope that, irrespective of whether we stick with the £2.6 billion or any other figure, you will accept that the core and central point is that there are costs attached to this proposal. It is not, as has sometimes been argued, cost-free. We hear a lot about the economic benefits and upsides of this proposal but precious little attention has been paid to the potential costs. I hope, therefore, that you

welcome the contribution that HMRC has made to the debate with this paper.

**Stewart Maxwell:** I absolutely and unreservedly welcome HMRC's contribution. Indeed, I am glad that you have raised the wider picture because what is missing from HMRC's contribution to this debate is the impact on the wider economy with regard to jobs and further tax receipts. It is interesting that we are getting some of the negativity that Mr Rennie talked about earlier but not much about the other side of the equation.

Still on corporation tax, HM Treasury has estimated that if such powers were devolved to Northern Ireland, profit shifting could amount to £70 million. However, it estimates that if the tax were devolved to Scotland, profit shifting would amount to between £1 billion and £1.2 billion, or 15 times more than in Northern Ireland. Can you please reconcile the difference between those two estimates?

**Michael Moore:** Again, as the paper explains in overview terms—and as I said earlier—we are talking about economies that are very different in size and nature. That leads to completely different corporation tax figures charged in the different countries. I am sure that we can get you more detail on the difference between the two estimates, but I think that we will all recognise that the structure of the Northern Irish economy is very different to that of the Scottish economy. For example, the Scottish economy has a much more developed private sector and its profile of private sector companies is very different to that in Northern Ireland.

**Stewart Maxwell:** I do not pretend that the Northern Ireland economy does not differ from the Scottish economy, as you said—I accept that point. However, I do not accept that, if Scotland had corporation tax powers, likely profit shifting in the Scottish economy would be 15 times greater than that in Northern Ireland. That difference is enormous. I am trying to understand why—or, more important, how—the UK Government has come up with that figure.

**Michael Moore:** I am sorry to keep repeating myself. The methodology is set out in the paper, but I know that you want to probe for more detail, which I am sure that Mr Gauke and officials will be able to get for you before he appears before the committee.

**Joan McAlpine:** I will pick up on that issue. I am afraid that I will return to the £2.6 billion cost. You said that that included the cost to the UK, but you presented it as the cost to Scotland. As Mr Maxwell pointed out, that seems a bit incredible, as it would wipe out the entire corporation tax take in Scotland. Given that the figure includes the cost

to the UK, is it slightly disingenuous to add it to the total cost to Scotland?

**Michael Moore:** EU rules make it absolutely clear that no changes can be made to corporation tax or other taxes through subsidy—that falls foul of state-aid rules. The Azores judgment relates to such a measure that was contemplated elsewhere in the EU. By all means challenge the idea that Scotland must bear the full cost of the changes, but that happens to be part of the legal environment in which we operate as part of the United Kingdom.

**Joan McAlpine:** Legal opinions differ on how the Azores judgment might affect corporation tax plans in this country.

You mentioned a couple of times the Scottish Government's modelling work on corporation tax. I understand that you will receive from the Scottish Government today a paper that outlines the effect of reducing corporation tax in Scotland from 23 to 20 per cent after the UK rate is lowered. The Scottish Government calculates that, after 20 years, such a reduction would increase employment in Scotland by 1.1 per cent and increase GDP in Scotland by 1.4 per cent. A 1.1 per cent increase in employment represents 27,000 jobs. You talked about the lack of—

**The Convener:** I will interrupt. It is not fair to ask the Secretary of State for Scotland to comment on anything that neither I nor the rest of the committee know about, which he obviously does not know about and which is coming this afternoon.

**Michael Moore:** Joan McAlpine appears to have a great advantage over me—I do not know about other committee members—in having seen a paper that has not yet been presented. The paper might have gone to HMRC today, but I have not seen it.

Joan McAlpine touches on important arguments and details. We will scrutinise the paper, which will be part of the debate. I do not know whether the paper is the formal submission on corporation tax or a taster, but we will look at it carefully.

**The Convener:** We will move on to excise tax, on which Mr Baker has waited patiently to ask questions.

**Richard Baker:** I am becoming frustrated that some documents appear to be going to other organisations and not to the committee, when we look for evidence on these important matters and for detailed evidence from the Scottish Government. I certainly was not aware—and neither was the secretary of state—that the paper that Joan McAlpine mentioned was coming. We should take that back to ministers.

**The Convener:** I will clarify the position. After this meeting started, I was handed a letter from the Scottish Government—that was the first time that I had seen it. It says the paper

“will be available on our website from 9.30am today”.

I think that it will be up for discussion this afternoon.

**Richard Baker:** It is obvious that others are already aware of the paper. The committee and the UK ministers who are giving evidence have been treated discourteously, but I am sure that the committee will return to that.

Secretary of state, I will ask you about excise duty, on which you have not had a paper—or perhaps a paper is just about to reach you and has been given to somebody else. In your introduction, you said that detailed discussions had taken place with ministers on the range of powers that the Scottish Government demands. In those discussions, has the Government given you more details about its proposals for devolving excise duty?

11:15

**Michael Moore:** No, but I am sure that officials are now scrabbling through all the websites that they can find to see whether there is a paper. I do not wish to be facetious; we anticipate that we will get a paper and get the detail on excise duties. The Calman commission considered the option and, in the round, the risks were deemed not to be sensible for us to take here in Scotland. As someone who lives in a Borders constituency with a lot of cross-border trading routes, who knows whether, if we had different excise duties on certain items, it might do the economies of Coldstream and Cornhill, and Eyemouth and Berwick, a great power, but I do not want to be selfish about it. We obviously have to look at the issue in the round but, as yet, we have heard nothing.

**Richard Baker:** There are important issues about what has been proposed, as far as we understand it. The First Minister alluded to the fact that the Government wished to use excise duty on alcohol to retrieve the additional revenues if a minimum unit price for alcohol is introduced. That would be a way for the Government to recover those additional revenues, but my understanding is that it would mean changing the point at which excise duty is levied from that of distribution to that of sale. It strikes me that there may well be serious implications in terms of, for example, EU rules. I know that it is the Scottish Government’s job to present the evidence, but have you done any work in advance of that to establish whether a similar system operates anywhere else in the EU?

**Michael Moore:** We are not getting ahead of ourselves. We are concentrating on our plans and on the powers in the bill, which I have already highlighted are important powers with complex detail that we will focus on getting right. You highlight a particular challenge that would be faced because of how duties are imposed. Beyond that, I made the point slightly flippantly earlier on, for which I apologise, that the idea that there will be some great new Calais-type entrepôt in the Border towns of England and Scotland is something that we need to look at carefully.

We must also take account of the very stringent legal arrangements and frameworks within the EU. We cannot implement such a measure if it breaches state-aid rules.

**Stewart Maxwell:** I apologise if I picked the secretary of state up wrongly, but I think that he said that he envisaged that a problem would be created if there were different excise rates on either side of the border, and that, being a Borders MP, he could see the difficulties that that might cause. Is that what you said?

**Michael Moore:** We would have to look at the issue and see whether a problem would arise. It depends on the proposals.

**Stewart Maxwell:** Given your scepticism on the issue, and that some of the arguments against it that your party and other parties made in this Parliament were about the problem that would be created by different pricing on either side of the border, I wonder why the Liberal Democrats have shifted their position on minimum pricing and now support it in Scotland?

**Michael Moore:** I am sure that my colleague and your friend on the committee, Mr Rennie, will deal with that issue in the debates. I understood that you had welcomed the fact that we have recognised many of the health issues attached to the proposals on minimum pricing.

**Stewart Maxwell:** That is very welcome.

**Michael Moore:** The point that I have made to other colleagues is that there is a complex set of issues. We need to understand the issues when the paper on excise duties is brought forward. We cannot wish the problems away and no doubt the Parliament will have to address the complexities of minimum pricing that we have previously highlighted when it considers the legislation that the Government introduces.

**Stewart Maxwell:** Have you now changed your mind from the Liberal Democrats’ position when they advocated the devolution of excise duty in their submission to the Calman commission?

**Michael Moore:** As a party, we have looked at the evidence that Calman took. We supported the outcomes and we accepted where the evidence

lay, given what we wanted to achieve through this next stage of devolution, so we signed up to the proposals and that was in our manifesto last year.

As to the years ahead, we are all independent parties and we will, of course, continue to think about these issues. However, in the here and now, if the Scottish Government wishes to pursue the devolution of excise duties—as yet, we have not had that confirmed—the onus is on it to show how it would deal with some of the issues that we would also have to tackle if we wanted to bring it forward.

**Stewart Maxwell:** Absolutely. I am just curious whether, as a senior Liberal Democrat member of the Cabinet, you have changed your position from the Liberal Democrat position that was submitted to the Calman commission.

**Michael Moore:** We considered all the evidence. We came to a consensus with others on the best package of measures for Scotland. The Government has now carefully considered in technical terms what we need to do to implement the measures. As a party that believes that consensus is a fundamental requirement for taking forward constitutional development at any stage, that is entirely appropriate and consistent with our philosophy. It does not preclude our party debating excise duties or other taxes in future, or considering the evidence that has come up in the years since the Calman commission took its evidence. The debate will continue.

**The Convener:** You two seem to have a lot of debates to continue.

**David McLetchie:** I want to deal with some of the practical aspects of having different excise duty rates and follow on from Richard Baker's point about excise duties currently being levied on and collected from the producers of alcohol, whether they are distilleries or breweries. I will take the example of a popular vodka that was formerly distilled in Warrington. It is popular with Scottish consumers but is taxed at the distillery in Warrington. If the Scottish Government levies a higher rate of excise duty on that vodka, how will it be collected in Scotland? At what point in its travels from Warrington to Glasgow will that extra tax be collected?

**Michael Moore:** I am sure that David Mundell would be delighted to set up the facility in his constituency.

David McLetchie raises a very important point and it is one many issues that we will have to consider if and as and when the proposals have been made.

**David McLetchie:** Someone has to collect it, so presumably we will either have a customs post at Cornhill or Coldstream or Dumfries—we could get

a latter-day Robert Burns to be the customs officer and collect it—or all the licensed grocers in Scotland will have to collect the duty on every bottle that they sell off their shelves and remit it to the Scottish treasury. Someone has to collect that tax and presumably those are the only two options.

**Michael Moore:** Scottish products sold in England would have to pay the English rate and vice versa. No doubt the mechanisms that we would have to establish to collect those different rates will be covered in the evidence that is brought before us.

**David McLetchie:** So we expect the Scottish Government to provide definitive answers to these questions and tell us how whatever we produce will be taxed and collected in future. I look forward to that.

**The Convener:** We seem to have consensus between the secretary of state and Mr McLetchie.

We now move on to the Crown estate. I understand that Alison Johnstone has questions on that.

**Alison Johnstone (Lothian) (Green):** I also thank you for coming this morning.

**Michael Moore:** You have been very patient.

**Alison Johnstone:** I have indeed.

Is it your understanding that the question of the Crown estate is still up for discussion? George Osborne has said that the sovereign grant that connected the bill to the funding of the monarchy could have been linked to other mechanisms. Do you see any difficulties coming up now, given that that might confuse matters or muddy the waters slightly? Will that make it more difficult to extricate the Scottish Crown estate from the control of the Crown Estate Commissioners?

Carrying on from that, the Crown estate and aspects of our energy policy—

**Michael Moore:** I am sorry to interrupt but could you just clarify the question for me?

**Alison Johnstone:** Now that the Sovereign Grant Bill links the revenues of the Crown estate and the monarchy, will that make devolving the administration of the Crown estate to the Scottish Parliament more difficult?

**Michael Moore:** That is clearly not yet our policy and it would only ever be our policy if we were persuaded of the case. A considerable amount of discussion would have to take place before we got even close to that position. The debate is a live one, not only here in the context of the Scottish Government's proposals, which we have received and are considering, but in the context of work that is going at Westminster on the

operations of the Crown Estate Commissioners—they are subject to scrutiny by the Scottish Affairs Committee, to which David Mundell and I anticipate that we will give evidence at some point in the autumn.

You will be aware that we have introduced proposals for a coastal communities fund, the details of which are in the process of being discussed by the Treasury and the finance secretary. We want to recognise the particular contribution that coastal communities have to make to Scotland's marine energy future and to ensure that they enjoy some of the benefits of our plans to see significant developments of offshore energy across the UK and particularly here in Scotland in the next decade and beyond.

**Alison Johnstone:** That is helpful but, just to be clear, is it your understanding that the question of the Crown Estate is absolutely up for discussion?

**Michael Moore:** We have said that we will discuss all serious, detailed proposals. We have had a proposal from the Scottish Government on the issue, which Richard Lochhead wrote to us about in June. In time, we will engage in discussions with the Scottish Government and will have further questions for it. At present, we are not persuaded that what it proposes is the right way forward, but on all these matters—whether on the Crown estate, corporation tax or other areas where we think that there are serious issues—we have promised that we will consider carefully what is put to us, and that is what we are engaged in at present.

**Alison Johnstone:** You mentioned coastal communities. On another aspect of energy policy, do you agree that it would be sensible to devolve control of the carbon emissions reduction target or its replacement to give the Scottish ministers the power to set targets for the energy companies? At the moment, we are having to go through policy contortions to fit in with the energy companies' contributions, which are defined at UK level. Scotland has some very difficult housing stock, we have lots of tenements in our cities and we have colder weather. Would you be prepared to look at the devolution of greater powers to the Scottish ministers on that issue?

**Michael Moore:** No detailed proposition—in fact, no proposition—has been made to us on that until now. Such a proposition is not part of the six demands that have been brought forward. If someone brings forward the idea, we will look at all such matters carefully. There has been a great deal of dialogue between the Scottish Government and the UK Government in the past year as we have reformulated energy policy to make it fit for purpose and to ensure that we encourage investment in renewables so that we have in place

the right infrastructure for the highly significant changes in networks that will take place over years to come.

The green deal targets insulation, to ensure that we raise the standard of our housing stock. The Scottish Government has already undertaken significant work in that area. The energy assistance programme has put money into a lot of housing stock and has involved work with the energy companies and with the UK Government, so good partnership working has already been established. It is appropriate that we set the overall regulation for energy companies and others at a UK level. Most of them are integrated, complex businesses that operate across the UK. It would take quite a robust, detailed set of arguments to persuade me that we should devolve control of that.

**Alison Johnstone:** Thank you. Recently, Scottish Power was encouraged to do more, but at the moment the Scottish Government has no clear means of directing how the money will be spent, as can happen with schemes in England and Wales. We can certainly bring forward more detail on that.

11:30

**The Convener:** Secretary of state, you said that this issue was not among the six points that the Scottish Government brought forward. As convener, I want to make it very clear that this is a committee of the Parliament and that it is entirely possible that we will come forward with detailed proposals in our report.

**Michael Moore:** I apologise if you inferred from my comment that no one other than the Scottish Government can bring forward ideas. I withdraw any suggestion that you will not come up with your own thoughts.

**The Convener:** Thank you very much.

I have a quick question about the Crown Estate, which we have all been reading quite a lot about. When I saw that the Scottish revenue from the Crown Estate is less than 4 per cent of the overall amount, it struck me that I did not understand at all why the UK would want to hold on to it.

**Michael Moore:** On the other hand, it should also be recognised that the Crown Estate's investment in Scotland has been disproportionate to the income and the assets that it already has in the country. Nevertheless, the issue is up for debate and consideration not just by this committee but by committees at Westminster. We are looking hard at the Crown Estate's operation. It is very aware of its responsibilities to make itself available not just to Westminster, to which it is primarily accountable, but to committees of this

Parliament and the Scottish Government. We will continue to develop things in that respect to ensure that it is responsive to Scottish needs within the context of the UK.

**The Convener:** I am sure that the argument whether the benefit to Scotland is disproportionate will form part of that informed discussion.

As we have about 15 minutes left, I seek bids from committee members who might wish to raise other general questions. I call John Mason.

**John Mason:** Thanks, convener.

**The Convener:** Not too long, John. A couple of other members want to get in.

**John Mason:** I will be brief.

Another area that the Government has not particularly touched on is welfare and benefits. What are your thoughts on that? After all, I would have thought that one of the big aims of the Scottish and UK Governments would be job creation and getting people into jobs. However, returning to your point about accountability, I think that there is a bit of a break here. If jobs were to be created successfully in Scotland and people were to be moved off benefits into them, London would get the savings on the benefit bill—and indeed vice versa: Scotland might not do so well with job creation and Westminster would have to write the cheques. Would that not represent a breakdown in accountability and would it not be better if at least some of the—

**Michael Moore:** Do we not have shared accountability? Part of the argument for having a welfare and pensions system across the UK is that it is a fundamental part of the social union that people talk about, as it ensures a common set of standards for the way we look after people the length and breadth of the UK. It is a hugely complex and expensive set of arrangements and we certainly need to ensure that the welfare system encourages and helps people into work and, unlike the existing system, does not penalise them for taking that work. Our universal credit proposals go a long way to addressing that. Moreover, the work programme, which was launched just a couple of months ago, marks a complete change in the way we support individuals and the way they look for work.

The UK Government has been very clear that, in recognition of the Scottish Government's big responsibilities, we must work very closely in partnership. Indeed, the fact that the finance secretary and I have discussed the issue directly in Westminster—and no doubt will have further discussions on it—is a sign of our joint intent to make this work. I have also been engaged in a series of seminars around Scotland on youth unemployment, which is a particular scourge not

just in North Ayrshire—the worst area in the country in that respect—but across the country's rural and urban areas. Iain Duncan Smith came to the first of those seminars and he and John Swinney have kindly agreed to come to the national seminar that I hope will be held in Dundee in the spring. We want to ensure that, through the work programme and our other efforts with the overall UK economy, we are complementing and working with the Scottish Government on what it is doing with regard to skills, training and many other aspects. Indeed, in the seminars that we are working through, a repeated theme is the need for the Scottish and UK Governments to be well attuned.

**John Mason:** I more than welcome the point that there should be better working together, because, in my council experience, the Department for Work and Pensions was not particularly good at getting round the table with other groups. If we can tidy up the practice, that would be good.

In health we have gone in slightly different directions, although it is also national or UK-wide—whatever you want to call it. It is complex. We have not been so keen on the private way that they have gone in England. There have also been problems with Atos and the DWP and the privatisation of work capability assessments, which we might want to do separately. Are you saying “absolutely not” to any of that?

**Michael Moore:** We have a responsibility to respond to the practical aspects of what you have concerns about. No matter the capacity in which people come forward—as MSPs, MPs or councillors—where there are difficulties with the way in which Jobcentre Plus operates, we want to know about it. We want to ensure that the partnership thing is a reality and not just something that we talk about. I know from my extensive discussions with the team here in Scotland that they are committed to doing that and they have very good working relationships with Skills Development Scotland. If we can enhance those in any way, we will certainly do so.

On work capability assessments, personal capability assessments and so on, there have been issues to do with the way that that system has worked. However, one of the things to which both Iain Duncan Smith and Chris Grayling have been committed is ensuring that we get that right, because we are in a big process of moving people who had been on incapacity benefit across to employment and support allowance and ensuring that we get people properly assessed, so that we give those who have some ability to work the support to find work and, on the other hand, that we continue to support those who will continue to need support. That is primarily about the practical,

everyday realities of how the system works, rather than whether the system is reserved or devolved. I hope that you will find us responsive to people's thoughts and concerns about the arrangements.

**The Convener:** I will take another quick question on a general theme from Stewart Maxwell.

**Stewart Maxwell:** Secretary of state, you made several references to the Calman commission and its work. You referred to the letter that the convener, on behalf of the committee, received from you this week, which states:

"the Coalition Government is implementing the recommendations of the Commission on Scottish Devolution's report".

You also said that there had been cross-party consensus in setting up the Calman commission. You made much of the fact that the Scotland Bill is based on the commission's report. Given your admiration for the work of the commission, will you explain to me the discrepancy between what is in the Scotland Bill and what was in the recommendations of the Calman commission? To give you a rough figure to start with, I think that there are about 21 original recommendations and the Scotland Bill takes up about half of those. The bill either rejects the other recommendations completely or does not go anywhere near as far as them. Why were only roughly 50 per cent of the recommendations of the Calman commission, which was cross-party and which you supported—

**Michael Moore:** Oh, come on. I know that we are discussing a lot of numbers this morning, but to reduce Calman to a series of numbers and not attach significance to the particular recommendations is to sell the process short.

**Stewart Maxwell:** I am quite happy to go through them one by one.

**The Convener:** No, you will not!

**Michael Moore:** If I may, I will save all of us a fair bit of discussion by saying that I am quite happy to return to this either in writing or on a future occasion. We have explained on the record many times the specifics of why we have differed from the Calman commission recommendations and we have debated it at Westminster. We presented our different cases to your predecessor committee and we are happy to do so again. However, it would be disingenuous to suggest that, on a crude calculation of how many recommendations there were and how many we have implemented, we have somehow sold this short. People who were commissioners on the Calman commission are delighted that we had in our respective manifestos—although I appreciate that it was not in yours—a bill, to which we were committed and which was put into the coalition agreement and our first legislative programme,

that absolutely delivers the central propositions of Calman and the spirit of it where we deemed its recommendations not to be practical. I hope that you will welcome that.

**Stewart Maxwell:** I am sorry that you think that it is a crude representation of Calman to say that 50 per cent of it is not being implemented in the Scotland Bill. I think that that is an interesting figure, and I have a quick example of what it refers to. The Calman report stated:

"nature conservation should be devolved to the Scottish Parliament at the earliest opportunity".

The predecessor Scotland Bill Committee agreed with that. Why is that provision not in the Scotland Bill?

**Michael Moore:** Because our judgment is that the marine conservation arrangements that we have developed in the United Kingdom, which are closely aligned between the Scottish and UK Governments, are the most appropriate way of doing what is required. We have looked carefully at that point in the Calman report, but we do not believe that that step is necessary, given the policy framework that we have.

**Stewart Maxwell:** You may not think that it is necessary, but both the Calman commission and the predecessor Scotland Bill Committee thought that it was a good idea, as did the Steel commission. Can you give us a practical and detailed reason why it is not appropriate for the Scottish Parliament to oversee marine conservation, given the other devolved powers in this area?

**Michael Moore:** The Calman commission recommendation, which I am happy to have before me—you come well prepared, Mr Maxwell—states:

"The effectiveness of the agreement"

between

"the UK and Scottish Governments should be kept under review"

within the machinery. We have not had significant representations in the past year that suggest that there is a major breakdown in that. However, if you wish to advance evidence that suggests that that is the case, we will look at it carefully.

**Stewart Maxwell:** I thought that that was what our predecessor committee and the Calman commission did. I do not want to say that you are not being entirely accurate with the quotation from the Calman report, but it states that the agreement

"should be kept under review ... and nature conservation should be devolved to the Scottish Parliament at the earliest opportunity".

**Michael Moore:** Well, let us say that we are in the review period.

**The Convener:** I put it to you that there are many things in Calman with which our predecessor committee agreed, on a four-party basis, but with which your proposals now disagree.

**Michael Moore:** I am conscious that we are running a bit short of time, but I am happy to set out from the discussions that we have had in our own committee process, on the floor of the House of Commons and at the report stage the detailed reasons why we have not taken up all the different issues that were brought forward. I hope that you will see, on reviewing those reasons, the reasonable basis on which we have done that and recognise that, in the measures announced in the ministerial statement that I issued with the Chancellor of the Exchequer in June, at the report stage and in the way the bill is now shaped, we have taken on board many of the various substantive points that were made.

**The Convener:** I thank you for that—it is very much appreciated. It would be very much appreciated if we could have that sooner rather than later to inform our deliberations.

In conclusion, can I pull back to one of the first things that I mentioned today? I am glad that you conceded that your proposals have not been overwhelmingly endorsed by our Parliament. That said, I was a bit concerned about what Lord Wallace said the other day when he talked about the Scottish Parliament already having approved the bill and its proposals, which is not the case. As we said, there are caveats. Can you confirm today what you said at the second reading of the bill in the Commons? You said that the UK Government

“will proceed with the Bill only with the formal and explicit consent of the Scottish Parliament.”—[*Official Report, House of Commons, 27 January 2011; Vol 522, c 477.*]

**Michael Moore:** Yes, we will do that. However, I want to ensure that we do not have a misunderstanding about the nature of what happened in the previous Scottish Parliament, which I respect you were part of. The motion explicitly welcomed the Scotland Bill but said that there were areas that it wanted amended; it did not have caveats about the fundamentals of the bill. We respect the fact that, through our legislative processes at Westminster and the scrutiny processes here and elsewhere, you will seek assurances and further information on how we are handling matters. That refers back to what I was saying just a minute ago. We are committed to that and we hope that through those processes—yours and ours—we will be at the point in due course where you will be able to endorse the bill and that it will proceed as we want it to do.

11:45

**The Convener:** Thank you. The committee will always treat you and your proposals with respect. I presume from what you have said that that will be reciprocated.

**Michael Moore:** Indeed. I am very grateful for the way in which we have had our discussions this morning. I have made a number of references to further information that might be supplied to you. We will ensure that we provide that as quickly as we can. If you need further information beyond that, we will do our very best to supply it to you as well. I know that Jim Wallace and my colleagues from the Treasury will be before you in the weeks ahead.

**The Convener:** Thank you. I thank the Rt Hon Michael Moore and the Rt Hon David Mundell for coming. I thank, too, Alisdair McIntosh and Laura Crawford, who have sat there very patiently. I suspend the meeting, to reconvene in private at 12.45.

11:46

*Meeting suspended until 12:45 and continued in private thereafter until 13:22.*



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