OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 8 February 2017

Session 5

The Scottish Parliament
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FINANCE AND CONSTITUTION COMMITTEE
6th Meeting 2017, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

*Neil Bibby (West Scotland) (Lab)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Ash Denham (Edinburgh Eastern) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Patrick Harvie (Glasgow) (Green)
*James Kelly (Glasgow) (Lab)
*Liam Kerr (North East Scotland) (Con)
*Ivan McKee (Glasgow Provan) (SNP)
*Maree Todd (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Garry Clark (Scottish Chambers of Commerce)
Stephen Leckie (Scottish Tourism Alliance)
Derek Mackay (Cabinet Secretary for Finance and the Constitution)
Gordon Wales (Scottish Government)
Gareth Williams (Scottish Council for Development and Industry)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 8 February 2017

[The Convener opened the meeting at 09:31]

Budget (Scotland) Bill: Stage 2

The Convener (Bruce Crawford): Good morning and welcome to the Finance and Constitution Committee's sixth meeting in 2017. As usual, I ask members to switch off their mobile phones or at least to put them in a mode that will not interfere with proceedings.

Our first agenda item is to take evidence on the Budget (Scotland) Bill at stage 2. The session is intended to allow the committee the opportunity to put questions to the cabinet secretary and his officials.

I welcome to the meeting Derek Mackay, the Cabinet Secretary for Finance and the Constitution. He is joined by Graham Owenson, head of local government finance; Jonathan Sewell, head of the income tax and fiscal adjustments unit; and Gordon Wales, director of financial management. I welcome all our witnesses and I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Finance and the Constitution (Derek Mackay): I take the opportunity to recognise the committee's work during this year's budget process, which is reflected in the quality and scope of your report on the 2017-18 draft budget. As I informed Parliament last week, I will respond in full in advance of the stage 3 debate.

There are a number of amendments to consider following the spending changes that I announced at stage 1. As committee members are aware, there are a number of differences in the presentation of budget information between the draft budget and the budget bill. To assist the committee, I will explain the main differences with reference to table 1.2, which is on page 3 of the supporting document.

Column H in table 1.2 sets out the draft budget's spending plans, as required to be restated for budget bill purposes. Columns B to G in the table provide details of the adjustments that have been made, including the statutory adjustments that are necessary to meet the requirements of parliamentary process.

I take the opportunity to highlight one substantive change to the spending plans that are outlined in the draft budget. To ensure that budgets align with the latest available information, there is an increase of £1.115 billion in the annually managed expenditure budget provision for the teachers and national health service pension schemes. That reflects HM Treasury updates to discount rates that are applied for post-employment benefits, which were announced in December 2016. That is a non-cash adjustment that relates to estimates of future liabilities.

The other adjustments that have been set out include the exclusion of £164.8 million of non-departmental public body non-cash costs, which do not require parliamentary approval and which mainly relate to depreciation and impairments in our NDPB community; the exclusion of judicial salaries and Scottish Water loan repayments to the national loans fund and the Public Works Loan Board, which also do not require parliamentary approval; and the inclusion of police loan charges, which are to be approved as part of the bill. Those are technical accounting adjustments of £111.7 million, which reflect differences in the way in which HM Treasury budgets for those items and how we are required to account for them under the international financial reporting standards-based accounting rules that apply under the Government financial reporting manual.

There are also adjustments to portfolio budgets to reflect the requirement for separate parliamentary approval for the budgets of a number of direct-funded and external bodies. They include National Records of Scotland, the Forestry Commission, Food Standards Scotland, the Scottish Courts and Tribunals Service, the Office of the Scottish Charity Regulator, the Scottish Housing Regulator, Revenue Scotland and the teachers and NHS pension schemes.

The restatement of specific grants was included in the overall 2016-17 local authority settlement, and they remain under the control of the appropriate cabinet secretaries with policy responsibility. Full details of all the grants that are treated in that way are included in the summary table on page 44.

I again make it clear that those adjustments are essentially technical and do not change in any way the budget that has so far been scrutinised by this and other committees and approved in principle by Parliament. I remind members that, for the purposes of the bill, only spending that scores as capital in the Scottish Government or direct-funded bodies' annual accounts is shown as capital. That means that capital grants are shown as operating expenditure in the bill's supporting document. The full capital picture is shown in table 1.3 on page 4.

The amendments to the bill will give effect to the changes in the spending plans that I announced last week in the stage 1 debate and will be formally moved in due course. The amendments will allocate an additional £160 million to local government, £25 million to police reform and £35 million to Scottish Enterprise. Details of the allocations of the £160 million at local authority level have been provided separately. It will be up to councils to decide how best to deploy the additional funding.

The commitments will be funded through the use of the budget exchange mechanism, updated projections of the required Scottish Government contribution to bring the non-domestic rate pool into balance and a reduction in the anticipated cost of borrowing repayments next year.

I hope that committee members have found that information helpful.

The Convener: The Government has claimed that an additional funding package of £220 million will be made available in 2017-18. I have a simple question: where is that money coming from?

Derek Mackay: It might be helpful if I give you more of the detail on that, after which I will be happy to take further questions. I can give you figures, but the caveat is that they will be quite fluid until we get to the end of this financial year and into the next one. I suppose that that will become clearer as I describe how we arrive at the figures.

In moving from the draft budget to where we are now, we have had further time to look at forecasts, demand-led budgets, actual expenditure and the potential carryover from one year into another year, which is the budget exchange mechanism that all members are familiar with. We have also looked at our forecasting of and how we adjust non-domestic rates, as well as the change in borrowing that I touched on. Furthermore, we have changed our tax position, which will generate a sum of money.

I will give you figures for each element but with the caveat that, as we reach the end of the financial year, the profile of some of the figures in the £220 million may change. From budget exchange—that is the carry-forward from one year into the next, which can apply to demand-led budgets or underspends as we understand them—there is £47.5 million in resource departmental expenditure limits, £42.5 million in capital and £35 million in financial transactions.

From non-profit-distributing programme borrowing, the figure is £6 million. Officials can assist with the technical detail on all the figures, if that is required. From the non-domestic rates pool, we have £60 million. In addition to all that, the cash freeze on the higher-rate threshold should generate about £29 million.

From resource DEL, the total is £142.5 million; from capital DEL, the total is £42.5 million; and from financial transactions, the total is £35 million. That takes us to the figure of £220 million.

I make it clear that those figures are fluid and may change. The £220 million will not change, but the profile will be subject to what is required and appropriate at the time. Some of that will feature in budget reports later in the financial year. I can go into further detail if required to do so, but that is where the resource comes from.

To put it another way, there is always some element of budget exchange from one year to the next, when an underspend is carried into the next year because we cannot overspend—we can only underspend or get it bang on. To achieve a spend that is absolutely bang on target is next to impossible for any organisation of this scale.

To put the matter into context, the level of carryover from one year to the next—budget exchange—is quite normal. In the past, finance ministers might have been able to allocate that to specific purposes over the course of the year—last year, we allocated funds to the fiscal stimulus of £100 million. At the start of the coming financial year, I propose to allocate the budget exchange figures to the purpose that I have described, to respond to requests in Parliament and the clear budget negotiation process that was undertaken.

The Convener: You are right that members will want to get to some of the detail that is underneath that information. I would like to go into more detail on the non-domestic rates pool, which you tell us will produce £60 million for expenditure in other areas. I hope that you agree that there would be an almighty outcry from the business community if it thought that that money came from business rates. Can you assure me that none of the money from the NDR pool will come from business rates and that there will be no impact on Scottish businesses as a result?

Derek Mackay: There is no impact on businesses or business rates as a consequence of the budget decisions that we have taken. The non-domestic rates pool is incredibly complex, but essentially, although it involves multiyear budgeting because of how it is calculated, distributed and forecast—because of all the moving parts that are in it—it is true to say that every local authority area keeps every penny of non-domestic rates. In the pool, there are the contributions and the distributable amount; we assess the forecasts for that and then profile the amount for distribution. That is what we have done.

We have looked at the profiling, the considerations of the pool and the nature of the operating account and have ensured that the decision on the £160 million will not impact on what I have proposed for business rates—the poundage is still being reduced, the small business bonus is still being enhanced, we are still taking thousands of businesses out of the large business supplement and every council area will still keep every penny that it raises. We have changed the forecasting for all that—again, I can go into further detail—but the basic point in your question is correct in that there is no impact on businesses paying rates as a consequence of my decision on how to deploy the resources.

The Convener: Liam Kerr has a question on that area.

Liam Kerr (North East Scotland) (Con): My question follows on nicely. If I am hearing you right, there is an extra £60 million that you did not realise that you had, which relates to business rates. As you know, up in the north-east—I know that you have been up there—there are intolerable hikes in local business rates, which mean that there will be big cuts in businesses' resources, and some are threatening to shut their doors. That begs the question of why you would not use the extra business rates money to ameliorate the significant problems that businesses in the north-east and elsewhere face.

Derek Mackay: Mr Kerr asks a good question. I am well aware of the issues in the north-east and particularly in Aberdeen city and Aberdeenshire—that is why I went there at short notice, following a timely request to go. The meeting was described in the media as fiery, although it was actually very positive and constructive for all the attendees.

We can go over the facts on business rates, but there are further actions that can be taken. The committee is a useful place to understand and discuss that.

Some people do not think that business rates money stays in the local area—I have heard that charge in Aberdeen and Aberdeenshire—but that is not true. I was able to explain that half of all properties in Scotland will pay no business rates whatever.

09:45

There is an issue in hospitality that is worthy of further exploration, but half of all hotels pay no business rates whatever. In the north-east and across the country, there will be many beneficiaries from expanding the small business bonus. Raising the threshold for the large business supplement to £51,000 is lifting thousands of businesses out of paying that supplement. The poundage rate and the large business supplement together are lower than the 50p rate, and I have matched the poundage rate south of the border. All that is a good, nationally determined package of reliefs, and there is the expansion of rural reliefs as well.

The Ken Barclay review of all the individual issues around business rates will report in late summer. I want to look at how the methodologies for some sectors' rates were arrived at. Maybe it has been the case for decades that the formula is the formula, but I am interested to hear the panel's thinking on that.

I had a constructive conversation in the north-east. I said that I was more than happy to work with the local authorities on further support and that it might be more appropriate to have local schemes that reflect local circumstances, which is an issue that I will come back to.

I do not believe that a national transitional relief scheme is appropriate, given the nature of the revaluation. Mr Kerr will understand that the revaluation is independent of the Government and is delivered by assessors who are accountable to the courts and local authorities. Two thirds of businesses will pay business rates that are the same as or less than they paid previously. Those whose rates bills are going up will want to understand that and express their views to the Government, while those who will have no bills or smaller bills will perhaps not be as vocal.

Having looked at the data that I have, I believe that, if we were to have a national transitional relief scheme, as exists south of the border automatically because of legislation, the so-called biggest winners would be the national utility companies, at the expense of many smaller businesses. Many smaller businesses would pay more and their rates would be held artificially high to compensate the large utility companies. That would not be the right balance.

I have been engaging with a number of councils on local support. The Community Empowerment (Scotland) Act 2015 provides enabling legislation for a local authority to create any local rates relief scheme that it wishes. For example, Perth and Kinross Council has done that for retail businesses. Any local authority might want sectoral or geographic support for tourism, or, as in the north-east, the oil and gas sector. The legislation enables councils to provide that in a way that is state-aid compliant. Given that local authorities will have an extra £160 million of resource that they were not expecting, they will have the headroom and flexibility to deliver a local scheme if they think that that is appropriate. That is local community empowerment.

I think that we have taken the right decisions on a range of actions around business rates.

However, I will continue to engage with the business sector because, although I am mindful that some businesses might have explored with the assessors their rateable values, others might not be fully aware yet of what that means for them. I would not want them to miss out on the opportunity of the appeals process.

All of that is incredibly complex, which brings me back to the non-domestic rates pool that goes to local authorities. The Government determines what can be distributed from that pool. Because there is a multiyear element, the figures for what is raised against what is spent or distributed are not bang on for an individual year. However, there is a balance over a number of years. I have taken decisions about what will keep the pool in balance over a number of years, while looking at further forecasts on appeals and income, which will change as businesses work their way through the system. Utility companies will probably be at the higher end of increases, so they are likely to appeal, which will probably affect the final position.

Convener, I think that I have given a fair degree of detail, but I am happy to bring in Graham Owenson if you require more detail.

Liam Kerr: Can I just re-ask the question?

Derek Mackay: Do you want me to do that again? [*Laughter*.]

Liam Kerr: I hear everything that you say, cabinet secretary, but the question that I asked was whether you considered applying the £60 million extra to ameliorate the eye-watering increases that an awful lot of businesses, particularly in the hospitality sector in the north-east, are facing.

Derek Mackay: Mr Kerr, I tried to give you a detailed explanation of how the rates system works—how the contributions, the national reliefs and the local reliefs work. The value of our reliefs is now in the region of £600 million, so the balance is fair. Some elements are automatic and some are not. Giving the £160 million to local authorities and allowing them the discretion to use it is the right balance, as is the balance between the national supports and what can be done locally.

Some of this might be quite specific. If you want me just to make bland political points, I can, but I hope that I have been able to demonstrate a detailed knowledge of sectors and geography. Many people will pay less on their rates bill. People in many parts of the country will have smaller bills as a consequence of the measure. Some people have asked us to postpone implementation of the revaluation or transitional relief but I have tried to describe how each of those determinations would be unhelpful for the people who would pay less as a consequence of the national decisions and their local valuations.

To be blunt, I think that the allocation of resources is the right balance. I am not closed minded on what to do next to support businesses on business rates but I am examining all the evidence in detail. A further allocation of £60 million to national business rates relief is not necessarily the right thing to do when I consider the issue sector by sector.

Liam Kerr: That is not what I am asking for.

Derek Mackay: I thought that it was.

Liam Kerr: No, and I am not making a bland political point. I am simply saying that a business that faces a 250 per cent rise in its business rates, as many of the businesses to which I am referring do, looks at it and says that the Government is taking a significant extra amount of money in business rates. There appears to be a pot for which you did not plan on which you appear to have made a spending decision. You could have decided to help the businesses that face a 250 per cent rise, but you have chosen not to. Did you consider making that choice or not?

Derek Mackay: I have tried to explain the details and the complexity of how the non-domestic rates pool works. I am happy for officials to assist. I think that you have misunderstood how those resources can be released and how the forecasts are used. It is about the multiyear nature of budgeting within non-domestic rates and ensuring that the pool is in balance. To answer your question and the convener's question, it is absolutely not the case that I am asking businesses to pay more as a consequence of the spending decisions that I have made or the allocation on non-domestic rates.

The Convener: We will move to questions from Ivan McKee, because we need to explore issues to do with budget exchange.

Ivan McKee (Glasgow Provan) (SNP): I will ask about the budget exchange mechanism, cabinet secretary. You detailed, I think, three numbers that, if I have got this right, add up to about £125 million. Is that right? It was £47.5 million for resource DEL, £42.5 million for capital DEL and £35 million for financial transactions.

Derek Mackay: Those three figures are correct.

Ivan McKee: Aye, so it is about £125 million. If I have got that right, that is the buffer or slack that you need to be able to manage the process through the year and ensure that you do not run out of cash for items on which there is demand-led or other spend that needs to be made. It sounds like a big number, but it is only about 0.3 per cent of a £30 billion budget. Is my understanding of that correct?

As I understand it, you do not lose any of that money by not spending it, because the agreement with the Treasury is that it moves into the next year, which allows you to release it. Therefore, you would have a problem if you had not allowed for that money, because you do not know what it will be at the start of the year but, as you go through the year, it becomes more apparent. Is that how it works?

Derek Mackay: Yes, that is a fair summary.

Ivan McKee: Good.

Derek Mackay: Of course, I could just repeat all that but, if you want concise answers, convener, I am happy to say that that is a fair summary.

Ivan McKee: That is fine. I just wanted to get that clear. It is all I need to know.

The Convener: Murdo Fraser wants more clarity on budget exchange.

Murdo Fraser (Mid Scotland and Fife) (Con): Yes, and on the broader issue of the split in the numbers that you set out at the start, finance secretary.

When you presented your draft budget to Parliament six or seven weeks ago, you said—I might be paraphrasing—that it was a fair and balanced budget and that you had accounted for every penny. You challenged the Opposition parties to find what other parts of the budget to cut in order to balance it if they wanted to propose increases in spending in any area. It now turns out that that is not really the case. It turns out that you had the best part of £200 million down the back of the sofa, which you were not telling us about. How could it have been fair to the Parliament and its committees, which were trying to carry out detailed and proper parliamentary scrutiny of your draft budget, when you had all that money squirreled away that you were not telling us about?

Derek Mackay: I was trying to make you work for your money, Mr Fraser. I wanted to see whether you could find any more resources that I was not able to allocate and—

Murdo Fraser: But we are not in government, finance secretary—you are.

Derek Mackay: Yes, and that is unlikely to change for a while. I know that you love to debate, Mr Fraser—maybe we will return to that at stage 3.

The Convener: This is supposed to be questions and answers. Let us not have a debate across the floor.

Derek Mackay: Mr Fraser asks a fair question that relates to the updated forecasts for non-domestic rates and decisions that we are taking around the NDR pool. Through a tax policy change, we are moving the higher-rate threshold from an inflationary increase to a cash freeze, which will generate approximately an additional £29 million, and officials have advised on changing an element of borrowing that will release £6 million.

Budget exchange is a political decision, and it is fair to say that the Opposition will now be very wise to the operation of budget exchange in future years. I have taken a deliberate decision. Normally, budget exchange would carry on into the next year and, over the course of the year, it would be allocated as the Government and Parliament saw fit. However, I am determining at the start of the financial year that this is an appropriate policy decision to make.

That is partly a consequence of the negotiations with all parties, which will remain confidential with me although some Opposition spokespeople have chosen to put their requests in the public domain. I had to work hard to identify resources to make the consensus in Parliament that I wanted to deliver, which meant making policy decisions, taking an early decision on how we would allocate budget exchange and ensuring that officials turned over every stone to find extra resources to allocate in the budget. I can give further information on the non-domestic rates pool element, but that is still fluid because we are addressing issues within that.

I did not have resources waiting to be allocated but was able to make decisions over the past few weeks, since the publication of the draft budget. It is also fair to say that my room for manoeuvre in future years is now somewhat limited.

Murdo Fraser: I think that we all understand that last point, finance secretary. You say that you had to work hard to find those additional resources. The obvious question is why you did not work so hard back in December, before you published your draft budget. Had you done so, the Parliament and the committee would have had a much fuller picture of the resources that you had at your hand. It now seems that the budget that you published was a partial picture, because money was found subsequently. When exactly did it become apparent to you that you had the extra money that you did not know about before?

Derek Mackay: It is not an accurate characterisation to say that there was extra money for allocation. Political decisions were made on the basis of the profiling of non-domestic rates and our understanding of the assessments that are going on at the moment. Assessors are still looking at evidence, engaging with sectors and considering any appeals that have been made. Our forecasts for non-domestic rates will therefore continue to change until that process ends and the outcomes of any appeals are known. It is a moving situation, and there are many moving parts to that multibillion-pound budget.

Some of it was also down to policy choices such as the decisions to move our position on tax and to find further ways to allocate the underspend and budget exchange. Mr Fraser will be well aware that many budget lines are demand led and that what will be spent will become clear only as we get to the end of the financial year, which will determine what will be available for allocation. That situation changes from day to day and from week to week. As we get to the end of the financial year, we will have more information on what is a substantial amount of money—especially the £160 million for local government—but is still, in the end, a very small part of the total resource that the Government has at its disposal.

10:00

Murdo Fraser: You mentioned your income tax changes. If I recall correctly, your original position of not matching the United Kingdom Government's proposal to increase the higher-rate threshold was going to give you an additional £79 million. The further changes that you announced last week will bring you £29 million on top of that, which makes £108 million, according to my calculations. Could you confirm that that £108 million is actually less than the money that you have now been able to find, so there was no need to create an income tax differential between Scotland and the rest of the UK to meet all the spending requirements in your original draft budget?

Derek Mackay: That is an extra £107 million or £108 million that helps to balance the overall budget, so it contributes to the overall spending plans of the Government.

Murdo Fraser: However, you did not need to do that to meet your original spending plans.

Derek Mackay: We require that tax contribution to deliver the spending plans that I outlined to Parliament and for the policy reasons that we set out to Parliament.

The Convener: We have got on to transparency issues earlier than expected, so I will slightly change the process that we were going to go through. James Kelly, you are also interested in transparency issues, so we might as well get them out of the way now.

James Kelly (Glasgow) (Lab): What does it say for the transparency of the budget, cabinet secretary, when you have in effect been sitting on a slush fund since the publication of the draft budget seven weeks ago? You held that back for your negotiations, so you were not completely open with Parliament at the time of the draft budget.

Derek Mackay: That is not an accurate, fair or reasonable characterisation of the budget process, which was a process that Mr Kelly's party also engaged in. It is very constructive of the Government to listen to the parties in Parliament and to do everything that it can to find consensus to make decisions and to get the budget through. It is not unreasonable to make decisions to enable us to do that, and I totally refute any suggestion that I was sitting on any sort of fund that was ready to go. Political decisions were what ensured that I could arrive at the proposition of allocating £160 million extra in non-ring-fenced resources to local government. I would have thought that Mr Kelly would welcome that, but he seems quite bitter about it.

James Kelly: I am not bitter about anything, Mr Mackay. You said that the process is reasonable yet, if we take the budget exchange mechanism as an example, you knew that there was £125 million that had been built up in previous years, but you did not share that information with Parliament when you set out the draft budget in December and you held the money back for the negotiations. Is that not the case?

Derek Mackay: No, it is not the case, Mr Kelly. You are displaying an astonishing lack of awareness of the budget exchange mechanism and the budget processes of the Parliament. Speaking as a relatively new finance secretary, I am very surprised at that for a man of your years in the Scottish Parliament.

Budget exchange is not carried from year to year; it is from one year into the next. I recall the times when the Labour Executive handed money back to the UK Government, as it did not know how to spend it and, if it had not been for the Deputy First Minister ensuring that Scotland got the money back, the money would have been lost to Scotland. The difference between this Government and some previous Executives is that we ensure that the money is spent prudently and wisely and, when there has been budget exchange, it has been a fraction of the overall budget of the Scottish Government and it has been carried into the next year and spent.

Mr Kelly asked me why I did not explain that at the draft budget stage, but there are underspends in individual budget lines all the way to the end of the financial year—Gordon Wales monitors that on behalf of the Government—and there are accountancy adjustments beyond the end of the financial year. We have hundreds of budget lines, so the figure changes from day to day and the end position is known only at the point at which we close the accounts. We have been able to allocate that as part of the budget process in the fashion that I have described.

I hope that Mr Kelly is reassured that I have been prudent and constructive in my approach, and transparent about how I have funded the extra commitments as a consequence of the deliberations at stage 1 of the budget bill, which his party privately engaged in.

James Kelly: You mentioned local government funding and, as it stands, there are still £170 million of cuts to local council funding. Over the past week, you have heard councils' stark warnings about the cuts that they face—£50 million in Glasgow, for example. In making the taxation change, is it not the case that you have simply tinkered at the edges and that local government workers and council services will have to pay the price because you have not been bold enough on taxation?

Derek Mackay: I disagree with that characterisation. Local services will benefit to the tune of not £240 million, which was the figure that I explained when the draft budget was published, but more than £400 million. That will be the spending potential for local services, as I described.

Even if no council in Scotland raises council tax and we take the £70 million out of the equation, there is still an increase of £330 million at local level. Councils are beginning to set their council taxes; let us see what they do. How much they raise council tax by—up to 3 per cent—is absolutely at their discretion. I appreciate the Labour Party's support on increasing the multiplier for higher-value houses to enable us to make council tax a bit fairer and raise more revenue, which will support local services in every part of the country.

I said before that the local government settlement was strong and fair. It is now even stronger and fairer—I see that Mr Harvie is smiling at that. I think that local government welcomed the £160 million in non-ring-fenced resources, £130 million in resource revenue and £30 million in capital funding, which it can use as it sees fit.

I make one suggestion, which takes us back to Mr Kerr's point about business rates. I do not want the business rates issue to come as a surprise; councils should give consideration to a local rates relief scheme, in addition to what has happened nationally, given that they have more financial headroom and the enabling powers in that regard. I am happy for Government officials to share information with local authorities about rateable values, sectors and localities.

Like me, many members have been members of local authorities, and Mr Kelly will be well aware of the difference between the options that officials present during budget setting and what actually happens—those are two different things. Many of the stories about what will happen to local services might not come to pass, especially as local authorities have more resources than they were planning for in what was already a fair settlement for local government.

I have repeatedly rebutted the misleading figure from the Labour Party. When I look at the increases, local authority by local authority, I think that authorities are in a good, strong position to ensure that they can deliver quality services and take a balanced approach on taxation.

The Convener: There are a couple more questions on this area.

Patrick Harvie (Glasgow) (Green): I was smiling when the cabinet secretary said that the budget has gone from being "strong and fair" to being "stronger and fairer". I think that my characterisation would be that it has moved from being a severe cut to local government to being something that is just about good enough.

The transparency question comes back year after year and session after session. It has been part of the tension between the Parliament and Government, whether we have had a minority, majority or coalition Administration. It can be reflected in difficulties in comparing one budget with another because of changes to headings or to the presentation of figures. The new example is the perceived lack of transparency around the budget exchange and the flexibility that that gives to the Government.

A budget review is going on to try to improve how we manage the process. Does the cabinet secretary have views on how we ensure additional transparency and a more calm and measured approach to the budget, particularly in the context of there being a minority Government? There is an additional case to be made for transparency in that context, if we want to avoid last-minute dramas and brinkmanship in the future.

Derek Mackay: No one could be keener than I am to find a calmer and more constructive and helpful way forward for the budget negotiation process that we have in the Scottish Parliament. On Mr Harvie's comment that, in his view, the local government budget is "just about good enough", I come from the west of Scotland, as he does, and I think that that is about as good a comment as I will get in political life from a member of an Opposition party.

I will reflect on the comment about transparency and how we do the business of the negotiations. Of course, that is a matter for Parliament as well. At this stage, I do not know of a way to do it other than to listen to Parliament and engage publicly and privately. On whether there is an issue about transparency, I have to work in the confidential realm, given what parties bring to me and what I can then explore and share. If parties put their requests into the public domain, I can respond fairly while still respecting private discussions.

Ultimately, whatever is decided goes into the public domain by way of tax and spend, and that is clear and transparent in what I am doing through the stage 2 amendments.

I think that we could all reflect on the matter in view of the fact that there is the budget review group. It will have to consider many issues, including timetabling, transparency, process, the new powers and our engagement with the Chancellor of the Exchequer's timetable this year, when we will have two budgets and not one, as we flip to having an autumn budget rather than an autumn statement. Considering all that, I am minded to consider how we could do budget negotiations differently. Political parties need space to have negotiations with Government, but if there is another way to do it, I will be interested in exploring it. I am not closed-minded.

More widely, there has been criticism of the transparency of the budget documents. That partly reflects just how complex the multibillion-pound budget is, and the many moving parts that it contains. However, we have tried to engage as best we can with people who are interested—stakeholders and opinion formers—in the budget process and in the detail that we have put out there.

The recommendation on that in the committee's report is worthy of further reflection. Other committees have commented, too: for example, the Local Government and Communities Committee would like a bit more clarity, with information on local government finance all in the same place. Some of that relates to decisions that are taken in other portfolios or later in the year, so it is not just to do with where information features, but the point is valid, and I think that all members would agree that it is worth considering.

Patrick Harvie: Clarity on the local government settlement in particular has been the subject of some contested interpretations of the figures, if I can put it that way. Some people have compared the local government budget with outturn spending, which might be unfair to the Government, but the Government has also chosen to roll in additional spending, which might be unfair from the councils' perspective.

Have you seen the new Scottish Parliament information centre figures? They show that, even discounting the health and social care money—whether that should be seen as local government budget or health budget is contested—and any increase from the 3 per cent flexibility that councils have on the council tax, which is their decision and not Parliament's or the Government's, we are moving from a 1.9 per cent real-terms cut to local government to a 0.7 per cent real-terms increase. Do you accept that those figures are a reasonable estimate that is somewhere between the overly generous and the overly critical interpretations that have been made for party-political purposes?

Derek Mackay: I never doubt the work of SPICe, of course, but I have not seen that paper or those figures. I think that I have clearly expressed my position on the overall settlement to local government. Mr Harvie alluded to whether the integration joint boards, as the partnership bodies, are local government or health bodies. They are actually both: that is the point of integration, which is about bringing local services together.

I cannot give a judgment on the SPICe briefing because I have not seen it yet. I have always expressed my view on the £240 million for local services moving to £401 million, but even if we take off the figure for integration and the extra resource from council tax, the figures sound credible, in terms of the question and how you asked it. I remind the committee that many other funding streams that do not feature in the figures also go to support local authority priorities—for example, city deal funding and other funding streams contribute to local services.

Patrick Harvie: Briefly, and finally, I would like to ask about the amendment process. The fact that was a revelation to me, as a new member of the Finance and Constitution Committee, is that this is the first time that there have been stage 2 amendments to the budget.

10:15

Why has the stage 2 amendment process not been used by the Government in the past? Why is it being used this year, rather than other means of making budget changes? Do you anticipate this being a feature of budgets in the future, now that we are in a more complex budgetary system, especially with Parliament's new powers?

Derek Mackay: It is fair to say that the Government can make budget revisions through the course of the year. They can come in either the spring budget revision or the autumn budget revision. Obviously, budget lines can change during the course of the year, but the determining part, the transparency part and the authority that is given can come in those events through Parliament.

In view of the political deal that has been done to find consensus on the budget, I judged that the right thing to do, to be frank, is to show up-front and clearly how negotiations have led to changes in the budget position, and to bring the changes to Parliament. I could have made the changes later in the year, through other perfectly legitimate budgeting devices, but I think that there is a good and strong position in terms of transparency and intent by putting them in stage 2 amendments, because I know, before the budget process is concluded, what we are trying to achieve and how we wish to achieve it, so Parliament can take a view on it now. That is happening largely as a consequence of our engagement with the Greens.

Patrick Harvie: Thank you. I think that that sets a helpful precedent.

Neil Bibby (West Scotland) (Lab): As the cabinet secretary knows, the Scottish Government normally reports underspends in June, but you have decided to pre-announce £125 million of underspend and to allocate that before the close of the financial year. You said that the projected underspends change from week to week and from day to day. Will you tell us what the current projected underspend is for 2016-17?

Derek Mackay: Gordon Wales, who leads our financial management team, will cover that. It might be impossible to give an exact figure, but Mr Wales can give you a flavour.

Gordon Wales (Scottish Government): The figures that the cabinet secretary has described are the numbers that we expect to have as underspend to carry forward to next year, so they represent the current expected outturn.

Neil Bibby: What was the underspend that was carried forward last year?

Gordon Wales: There was £75 million in resource, £40 million in capital and £40 million in financial transactions.

Neil Bibby: So, you are projecting less underspend this year.

Gordon Wales: That is the current state of play, but we still have a good number of weeks to go before the end of the financial year. There is a large number of demand-led budgets, so the situation could change.

Neil Bibby: On what budgets or projects in 2016 is there the greatest underspend at the moment? I am talking about where that £125 million comes from. What department budgets are the most underspent at the moment, and to what extent?

Derek Mackay: We could give you a flavour of that.

Gordon Wales: I can give some examples. It is important to remember that we are talking about the budget exchange number here, which the cabinet secretary quoted as being £47.5 million for resource; it is not the full £125 million. It is also important to remember that we are dealing with many hundreds of individual budget lines that cumulatively form an overall outturn forecast. We are not talking about a small number of budgets that all provide the budget exchange; it is a very large number.

Examples that I could cite range from reasonably large amounts of money to small ones. Within the sums that have been set aside to pay Her Majesty's Revenue and Customs, to support income tax provisions for the collection of income tax this year, the assessment of costs for this year is around £4.5 million less than the budget that was set at the start of the year. It goes right down to organisations including Scottish Natural Heritage, which is reporting an underspend of something like £100,000 in its overall resource grant.

Neil Bibby: What is currently the biggest departmental underspend?

Gordon Wales: There is a variety of underspends across lots of areas.

Neil Bibby: I am asking which is the biggest area of underspend that is currently projected.

Derek Mackay: I think that Mr Bibby is almost trying to find a big project that has not been delivered as a consequence of these decisions.

Neil Bibby: No. I am just asking what you are underspending on. You are carrying forward £125 million. What is the biggest departmental underspend? It is a simple question.

Gordon Wales: When you refer to departments—

Neil Bibby: You have allocated spending to departments and you are projecting an underspend of £125 million. Where is the largest underspend? The underspend is obviously coming from some departments, so which departments are they? We will find out when you tell us in June, so why not tell us today where the projected underspend is from? You surely know the answer to that.

Derek Mackay: What we have tried to say, convener, is that there are hundreds of budget lines. If you want a portfolio breakdown—

Neil Bibby: Yes.

Derek Mackay: —I am happy to write to the committee within 48 hours with the portfolio breakdown of underspends. However, you will see that there are hundreds of budget lines, and funds within each of them add up to that total figure. I am happy to share that with the committee so that you will see where the underspends come from. The figures come out in due course in Parliament. We will happily give you them.

It would also be helpful if we give examples of what those kinds of underspends look like. I am happy to share that information.

Neil Bibby: That would be very helpful and welcome. Thank you.

You are talking about political choices and decisions. Was the extra money for Scottish Enterprise and the police budget a condition of the Greens' support for the budget?

Derek Mackay: No, it was not.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): My question is related to Neil Bibby's previous question. Cabinet secretary—you have been accused of sticking money down the sofa and hiding money here, there and everywhere. Is the reality not that any Opposition member could ask these questions at any time and get a flavour of the ebb and flow of how the departmental budgets actually work? Should they not, in a sense, be doing their homework in the course of the year and asking those questions, rather than accusing you of hiding the information from them?

Derek Mackay: I would like to be fair to Opposition members. It is perfectly legitimate to ask at any time where the Government underspends are. However, I would caveat any answer to such questions by saying that the figures are likely to change. That is the nature of in-year budgeting and in-year adjustments. Of course, figures will change as some expenditure goes up and some expenditure is not fully met.

The same goes for income now. We are not just a spending Parliament; we are a tax-raising Parliament, so I am frequently asked questions about our tax position and our devolved tax powers.

It is fair for members to ask, but it is also fair to expect members to reflect on how the figures change from week to week and from month to month. As I said, the scale of our financial operation is massive and we undertake a huge number of transactions. That number will continue to multiply, given that further powers on social security payments and tax are coming our way.

I think that some of the colourful language is unhelpful, given that it is a perfectly ordinary budgeting and policy-making process.

Willie Coffey: Would it be helpful to members if you could provide some kind of monthly gathering together of the movements in these budgets, similar to what you have just said that you will do for the committee?

Derek Mackay: I am sorry to say that some members of the Opposition have a strong track record of misrepresenting the budget exchange and the underspend issues, so I am not sure whether that information would be of assistance. However, I have portfolio questions to answer this afternoon, and members are entitled to ask questions on underspend at general questions or portfolio questions—I should not say First Minister's question time, because she would not thank me for that. Members can also ask about underspends via written questions. There are many parliamentary opportunities to ask the Government publicly for its current position on budgeting and finance. I am more than happy to engage in that process, but I do not think that it would be a helpful exercise to produce further reports on the Government's day-to-day budget position.

The Convener: Maree Todd will be the last person to ask questions before we get to the formal bit of stage 2.

Maree Todd (Highlands and Islands) (SNP): I have a fairly simple question about the £6 million that was found from a reduction of borrowing costs. I would like confirmation that the reduction in Scottish Government costs is not a reduction in capital investment.

Derek Mackay: That is correct. Mr Wales will give you the detail of how that transaction changes, but it does not in any way diminish our capital investment plan.

Gordon Wales: The reduction is tied to reclassification of a number of non-profit distributing projects in which the Government is using its borrowing capacity to offset the effects of those coming on to the Government's balance sheet. The Government's capital borrowing powers have been exercised to cover those projects, but it does not actually need to borrow money as a consequence. We had planned prudently that we might have to borrow, and obviously there are interest costs associated with borrowing from the national loans fund for that purpose. We no longer need to do that, so there is a saving on those interest costs for next year, which, as the cabinet secretary has explained, is £6 million.

The Convener: We now turn to the formal stage 2 proceedings. At this stage, I remind the cabinet secretary's officials that they are not permitted to speak on the record during this item. Everyone should have with them a copy of the bill as introduced, the marshalled list of amendments that sets out the amendments in the order in which they will be debated, and which was published on Monday, and the groupings of amendments.

Section 1 agreed to.

Schedule 1—The Scottish Administration

The Convener: Amendment 1, in the name of the cabinet secretary, is grouped with amendments 2 to 6. The cabinet secretary will speak to and move amendment 1 and speak to all the amendments in the group.

Derek Mackay: Amendments 1 to 5 relate to authorisation to use resources that are provided for in schedule 1, and will adjust individual portfolio allocations within the budget to reflect the spending announcements that were made at stage 1 of the Budget (Scotland) Bill 2017.

Amendment 1 will remove £6 million of borrowing costs from the finance and constitution portfolio. Amendment 2 will allocate an additional £25 million for police reform to the justice portfolio. Amendment 3 will allocate an additional £160 million for local government to the community, social security and equalities portfolio. Amendment 4 will allocate an additional £35 million for Scottish Enterprise to the economy, jobs and fair work portfolio. Amendment 5 will increase the total allocation for the Scottish Administration by a net uplift of £214 million. Amendment 6 will increase the overall cash authorisation by the Scottish Administration under section 4(2) of the bill by £214 million, in line with the additional spending that was announced at stage 1. That net increase is the £220 million of additional spending, less the £6 million of funding that was previously set aside for borrowing costs that has been reallocated from the finance and constitution portfolio as a contribution to funding those commitments.

I move amendment 1.

Amendment 1 agreed to.

Amendments 2 to 5 moved—[Derek Mackay]—and agreed to.

Schedule 1, as amended, agreed to.

Section 2 agreed to.

Schedule 2 agreed to.

Section 3 agreed to.

Schedule 3 agreed to.

Section 4—Overall cash authorisations

Amendment 6 moved—[Derek Mackay]—and agreed to.

Section 4, as amended, agreed to.

Sections 5 to 11 agreed to.

Long title agreed to.

The Convener: That ends stage 2 consideration of the bill. Members will note that the bill will now be reprinted as amended.

I thank the cabinet secretary and his team and suspend the meeting to allow for a change of witnesses.

10:30

Meeting suspended.

10:36

On resuming—

Air Departure Tax (Scotland) Bill: Stage 1

The Convener: The next item is evidence on the Air Departure Tax (Scotland) Bill at stage 1. I warmly welcome to the meeting Stephen Leckie, the chair of the Scottish Tourism Alliance; Gareth Williams, the head of policy at the Scottish Council for Development and Industry; and Garry Clark, head of policy and research at Scottish Chambers of Commerce. Members will have received copies of the written submissions from all three witnesses, so we will go straight to questions.

I will begin with a general question. The three submissions speak of the potential economic benefits for Scotland should the air departure tax be reduced. How have those anticipated benefits been quantified, and what assessment has been made of them in the context of the impact of other external factors, such as the current weakness of sterling? Who wants to take that on first?

Garry Clark (Scottish Chambers of Commerce): We have long been supporters of the devolution and reduction of air passenger duty, which is to become the air departure tax in Scotland. Our support for that dates back to before the 2014 Smith commission. Throughout that time, we have encouraged both the UK Government and the Scottish Government to take a stand on air passenger duty and aviation taxes in general because, historically, the UK has been one of the highest-taxed countries in the world when it comes to air travel. We believe that APD is a tax on connectivity, and we do not believe that the nation should tax activities that it seeks to promote.

We have called for a fairer, lower tax on air travel. A number of studies on the issue have been undertaken over the years. For example, a couple of studies by York Aviation and one, at a UK level, by PricewaterhouseCoopers a few years ago suggested that there would be a net economic benefit from reducing or eliminating air passenger duty. That has been the consistent view of such reports over a period of time, and we have no reason to doubt them. We have no evidence to contribute in terms of the veracity of the reports, other than to say that they are consistent in their view and that they were published by a number of sources over the years. I think that, as the legislation goes forward, we would all welcome additional scrutiny of the Government's plans for reductions in APD, or ADT in Scotland. I presume that any economic impact assessment would contain some analysis of the expected effects of the tax and its reduction.

Gareth Williams (Scottish Council for Development and Industry): I agree with much of what Garry Clark has just said. We would point to the experience of countries—Ireland, the Netherlands and Germany, for example—that had similar taxes and compare the effects that those taxes had on connectivity, on the behaviour of people flying from those countries and on their tourism industries with what happened once the taxes were either reduced or taken away.

I underline the point that the current tax is uncompetitive in international terms. We cannot see the sense in that, given our geographical position and the needs of the economy in relation to internationalisation. Having taken into account the international experience and the reports that Garry Clark highlighted, we support both the bill and the reduction in APD.

Stephen Leckie (Scottish Tourism Alliance): I can add a real-life example that is covered in the submissions. The Republic of Ireland abolished its air travel tax in 2014, resulting in a 7 per cent growth in passenger numbers and 21 new Ryanair routes. Abolishing such taxes makes a direct difference, and the industry will be able to move quickly if air departure tax is abolished.

The Convener: Liam Kerr has some questions on the quality of the assessments that have already been made.

Liam Kerr: First I have a question on the point that has just been made.

As Mr Leckie just said, and as Mr Clark mentioned in his written submission, the Republic of Ireland has had a 7 per cent growth in passenger numbers and 21 new routes. What is the evidence around that, and does that evidence show a concrete correlation between removing the tax and those positive outcomes?

Garry Clark: We have not done any specific analysis of that. However, in addition to the new routes that were established following the elimination of the tax in the Republic of Ireland, increased capacity on services was announced, and frequency of services increased, too. There seems to be a cause and effect there, although as an organisation we have not done any analysis of that.

Liam Kerr: Is that not a little concerning? One assumes a correlation, but surely showing an actual cause and effect ought to be the next stage: removing tax means increasing routes and the number of flights.

Gareth Williams: The reaction from the aviation industry to the changes in tax that were made was pretty much instantaneous. You can draw a strong correlation from that. There have also been strong commitments from some of Scotland's largest airlines on how they would respond to a reduction in tax in Scotland. Those are on public record, and we can expect those airlines to be held to them.

Liam Kerr: I will come back to that.

Was the Irish experience limited to international routes, or did the response to the change—the 7 per cent growth in passenger numbers and the 21 new routes—affect the national picture and the international picture?

Gareth Williams: My understanding is that it applied to international and domestic routes, and that it was not just limited to Dublin. The figures were spread across a range of Irish airports, and all parts of Ireland benefited from that connectivity.

Liam Kerr: I just wonder whether that data will prove to be productive. We will be asked at some point to make a decision based on something that seems to show cause and effect but perhaps does not.

Mr Williams, you said that you have commitments. This is an interesting point. Has Ryanair, for example, said, "If you abolish passenger duty or cut it by 50 per cent, this"—whatever "this" might be—"is what we will do"? Do you have that in writing? Is there an absolute guarantee in your mind that that would happen if changes were to be made?

Gareth Williams: The verbal and written commitments that have been made to the Scottish Government have been reiterated to us directly—by easyJet, for example, and I know from the Scottish Tourism Alliance's evidence that it has had a similar commitment from easyJet. From what we have heard, Ryanair is equally committed to increasing capacity.

10:45

Liam Kerr: Do those commitments apply to a 50 per cent reduction or to a 100 per cent reduction? Are there any caveats to those commitments?

Gareth Williams: I would need to go back and look at exactly what was said.

Stephen Leckie: A blanket commitment would be too broad brush. I think that the companies would want to know what was proposed for the international, domestic and European markets, whether the reductions were for 50 or 100 per cent, the timescales within which reductions would take place and when any reductions would be announced. It is not as simple as getting a commitment in writing from those guys saying that they are going to create new routes. We know that they would create new routes; the question is how much they would do and when they would do it, and that would all depend on when the bill is passed, when they are told about the proposals and what the implications might be for the three different sectors.

The Convener: Does Patrick Harvie have a supplementary question on that?

Patrick Harvie: I want to get into the economic impact analysis generally, but I was particularly keen to follow up the points about Ireland.

The Convener: Okay.

Patrick Harvie: I ask Garry Clark to unpack for me how exactly he subtracted the background level of aviation growth from what happened in Ireland in order to identify the impact of the tax changes.

Garry Clark: I am not sure that we have undertaken those calculations. We would welcome any analysis of the impact in other nations of any reduction in aviation taxation.

Patrick Harvie: So you do not know what the impact of the tax changes was.

Garry Clark: I am not aware of any study that measured one against the other. However, after the tax was cut, there was a measurable response.

Patrick Harvie: Hang on. If you are saying that there was a measurable response, that suggests that you know what the impact of the tax changes was, as opposed to the normal background growth in aviation, which we have also seen in Scotland.

Garry Clark: Let me clarify. There was a response, which is something that can be measured. However, I would not necessarily say that you can attribute all of that to the cut in tax.

Patrick Harvie: It is not necessarily a response to the tax changes.

Garry Clark: No.

Patrick Harvie: We probably should not call it that then.

Garry Clark: We would certainly welcome analysis.

Patrick Harvie: What does it say about the situation that Ireland is now considering reintroducing aviation taxation? I have here a recent article from *The Irish Times*, in which the finance minister, Michael Noonan, raises the prospect of reintroducing the tax,

"claiming the aviation industry is under-taxed."

He says that restoring the tax would be a

"useful tool for raising revenue and paying for externalities associated with air tax such as emissions, noise pollution, etc".

Gareth Williams: I am not aware of that comment.

To go back to the point about the response, there was a Government study that estimated that aviation tax in the Netherlands had cost the Dutch economy €1.3 billion. Given that that study was produced by the Government, we can presume that it was strongly evidence based. That study led to the abolition of the tax, and I am not aware that the Dutch are planning to reintroduce it.

Patrick Harvie: Are you no longer relying on the Irish example that was cited earlier?

Gareth Williams: We are relying on a range of different examples, including Ireland, the Netherlands and Germany.

Patrick Harvie: You are including Ireland, and I am asking what it says about the proposition that, in the Irish experience, abolishing taxes is an overwhelmingly positive thing given that the Irish are considering reversing that?

Garry Clark: It is also important to recognise that the previous tax rate in Ireland was somewhere in the region of €3 across the board, rather than the well over £100 that it is for some categories of travel from the UK. That would need to be factored into any calculations.

Patrick Harvie: It remains the case that the Irish finance minister now regards aviation tax as a

"useful tool for raising revenue and paying for externalities".

Those are things that we would be unable to do if we pursued the advice that you are giving us.

Gareth Williams: The proposal is for a 50 per cent cut over this session of Parliament. We would want to see that reduction made as quickly as possible. As Garry Clark articulated, even if the Irish were to reintroduce taxes, the rates would still be lower.

Patrick Harvie: Are we able to get into the wider economic impact now, convener?

The Convener: I will come back to that. I promised Ash Denham that she could come in.

Patrick Harvie: That is fine.

Ash Denham (Edinburgh Eastern) (SNP): Edinburgh airport is Scotland's largest airport. I am interested in getting more visitors into Edinburgh to visit attractions, to stay in hotels and to eat in restaurants in the city—and to visit Scotland more widely as well, of course.

You will be aware that we took evidence on the bill last week. It seemed to come across strongly in that evidence that the airports in Scotland, and perhaps Edinburgh airport in particular, are competing against other airports—Copenhagen was mentioned quite a lot—for new routes. If we can get new routes into Scotland, we will obviously increase passenger and visitor numbers. Do we have any analysis of the types of visitor we might expect to come and which types of visitor might be key drivers of the economic impact?

Stephen Leckie: Other than anecdotal chat about who we know arrives at Edinburgh airport, for example, we do not have a breakdown of domestic, European or international visitors. We know that Europeans want to come and visit Scotland; we also know that they recognise that Scotland is an expensive place to come to, like for like, given the value of the euro and so on. A reduction in air departure tax would help that position. Of course, we have the second-highest rate of VAT in Europe, so a reduction in VAT would help, too. I will use Ireland as an example again. Ireland reduced VAT from 13.5 to 9 per cent, which has made a difference to Irish tourism operators. Indeed, we have spoken to them about that.

On the international front, having more international visitors and business tourism at the Edinburgh International Conference Centre, the Scottish Exhibition and Conference Centre and the SSE Hydro arena—three of the biggest event-managed places in Scotland—would also make a big difference. However, we should not discount the massive market from London to Edinburgh and Scotland, which pours money into our economy up here. People can get to London easily, but that does not apply to Bristol, for example. The easiest way to get to Bristol is by air, so if aviation tax was reduced domestically, that would help to persuade business folk from Bristol, for example, to travel up to Edinburgh and Scotland.

Gareth Williams: In addition to the tourism impact, the statistics show that the largest percentage of long-haul traffic that comes through Edinburgh on business is from the education sector. That traffic includes researchers, staff, students and people going to and coming back from conferences. If we want to develop a knowledge economy, we must take account of the strong correlation between connectivity and the knowledge economy globally. We are competing with other countries and other airports for such business, so we should not disadvantage ourselves by having some of the highest tax rates.

Garry Clark: I agree with that. In recent years, we have seen healthy growth at Glasgow and Edinburgh airports—less so at Aberdeen airport, given the current circumstances. Both Glasgow and Edinburgh airports have told us that they might have grown services even more if the taxation burden on air travel had been lower. They would certainly underline their capacity to win new routes and to get more people to come to Scotland and to spend money here.

We also need to ensure that, as we look to increase our international trade, we are able to access more destinations across the globe in order to sell our goods and services on a wider scale. In a changing world environment, that is more important than ever.

Ash Denham: Will any of you take a view on which category of traveller—long haul, European or business—a tax reduction would impact the most?

Stephen Leckie: We think that the biggest immediate economic impact will be on European travel. As for long haul, the China market is coming our way, in time. Are we ready for the Chinese market today? No, we are not. On the domestic market, it is about not just London but Bristol and other peripheral airports. Europe will take the biggest immediate hit.

Gareth Williams: I agree. There are still gaps in connectivity between Scotland and Europe. Given Brexit, we want to maintain links and take advantage of opportunities. The priorities in relation to long haul are China, obviously, and west coast United States, particularly in the context of the tech sector. Could we also develop links with South America in due course?

As Garry Clark said, domestic routes remain important. Traffic has declined by 25 per cent at Aberdeen over the past couple of years, and the airport does not have long-haul routes, so if we want to maintain connectivity for the north-east—particularly for the oil and gas services supply chain and the international exports that it generates for the economy—we need to ensure that there is no further loss of services.

Garry Clark: We agree. There are broad opportunities to expand Scotland's connectivity. Long haul is important, but some airlines that serve European and domestic destinations, including Ryanair and easyJet, have suggested that they might be able to offer additional services if there were a cut in aviation taxes. If we are to take advantage of that opportunity, we will need a cut that is fairly broad in scope.

Ash Denham: Thank you.

Adam Tomkins (Glasgow) (Con): Mr Williams, in response to Ash Denham's question about Edinburgh airport, you mentioned the education sector and in your written submission you said:

> "Education is the single biggest reason for long haul travel via Edinburgh Airport."

I understand the links between aviation taxation and innovation, internationalisation and connectivity. However, in your written evidence you went further and said that there is also a link with productivity. You said that

"The OECD's work on 'The Future of Productivity' has highlighted the importance of participation in and integration into"

something that you called "global value chains", and you then cited education and Edinburgh airport in that context. Can you help me to understand a little better how you perceive the relationship specifically between aviation taxation and productivity?

Gareth Williams: Innovation and internationalisation are key drivers of productivity; they are inputs into national productivity.

On global value chains, businesses are increasingly disaggregated around the world and there is a strong need for connectivity between different parts of the value chain. Figures that came out last week showed, for example, the strength of professional services in Scotland as an international export. Such services form part of the value chain for many international businesses. That is what I had in mind in relation to productivity.

Adam Tomkins: Thank you.

The Convener: Ash Denham asked about Edinburgh airport, and I know that Willie Coffey has a specific interest in Ayrshire, so I will bring him in before I widen out the discussion.

Willie Coffey: I was interested in Patrick Harvie's point about what Michael Noonan, the Irish finance minister, said. It was Michael Noonan who abolished the levy years ago, so I will be really interested if he is changing his mind. Frankly, I do not think that he will do—

Patrick Harvie: I think that he has done.

Willie Coffey: Last week, witnesses told the committee that there is evidence from Ireland that the regional airports benefited from the abolition of the tax. My interest is in Ayrshire and in particular in Prestwick airport.

We heard last week from Mr Hinkles that traffic levels at Dublin grew by 40 per cent and that there were clear additional benefits to regional airports such as the one in Cork. Do you have a sense of how regional airports in Scotland might benefit from the tax being reduced by 50 per cent and, ultimately, I hope, abolished altogether in Scotland?

11:00

Stephen Leckie: The tourism industry involves 20,000-odd businesses throughout Scotland and represents something like 10 per cent of the economy. There is a huge capacity for growth in the sector. The tourism strategy 2020 was led and developed by the industry in 2012 and we have had a mid-term review of it. A new insight that came out of the 2012 production concerned connectivity and transport and the ease with which we can pour visitors and customers into Scotland, not just in the principal airports but the length and breadth of Scotland, in the Highlands and Islands, the north and the south.

Your point is well made. It is fundamental to the success of all the industries that are attached to the local airports. We know how keen Skye is to have some sort of airport of its own reinstated. We know how well the airports elsewhere work. As I said, the issue is that Scotland is seen as expensive to get to and to get around. If we can reduce the air departure tax, it will make a difference to that perception and, therefore, the money will be spent elsewhere.

Garry Clark: It is important to stress that regional airports are sensitive to price changes and anything that would affect the viability of services to them. In the earlier part of the previous decade, there was quite a bit of expansion in regional airports as a result of the air route development fund. Prestwick was a significant beneficiary, as was Dundee airport. It is important to recognise that there is a sensitivity around the cost of travel, from which regional airports may be able to benefit under the bill.

Willie Coffey: Mr Williams, do you have any comments?

Gareth Williams: I have nothing to add.

Willie Coffey: How do we get a handle on the figures for the likely impact? Do we just wait until it happens and examine what happened or is there any way that we could extrapolate from the Irish experience and assume that the beneficial effects for regional airports in Ireland will be reflected in Scotland? Should we be doing that work now and, if so, who should do it?

Gareth Williams: We said last year in our response to the consultation that we would welcome some analysis that builds on what York Aviation, PWC and Edinburgh Airport have produced. We also said that, if that analysis was felt to be necessary for the Parliament to understand the issues and the potential benefits, the Scottish Government should lead and commission it as soon as possible. That is still our position.

The Convener: I understand that Liam Kerr has a question specifically about Aberdeen airport.

Liam Kerr: It is to an extent.

The Convener: Is it or is it not?

Liam Kerr: It is, and it is about air passenger duty.

The Convener: Other people want to raise the wider issues but, if it is about Aberdeen, on you go.

Liam Kerr: Thank you, convener.

Mr Williams, you just mentioned Aberdeen airport and, in your written submission, you talked about how it has been affected by the economic slowdown. All the witnesses have referred to the fact that passenger numbers dropped. I have a JCDecaux report that says that passengers who fly through Aberdeen airport are affluent, 40 per cent of them work in the oil and gas industry and 53 per cent of them travel on business. Would a cut of 50 per cent to the duty—let us call it £7, give or take a little—impact on Aberdeen airport, at least in relation to the domestic market?

The Convener: Will you let everyone else know what JCDecaux is? Certainly, I am unaware of that organisation.

Liam Kerr: It is a report that profiles the various airports, as I understand it. The chaps on the panel will probably tell you better than I can.

Gareth Williams: Aberdeen airport has been clear that a number of routes are vulnerable to being removed because of the slowdown in traffic and that the proposed reduction would be one way of taking action to try to prevent that from happening.

Liam Kerr: I accept the argument about the international market but, on the local market, does it follow that a £7 reduction in duty for passengers who apparently will predominantly be expensing it will drive passenger numbers back up?

Gareth Williams: I understand what you are saying about the profile of passengers, but that does not apply to everyone. I have forgotten the figure that you cited but, when we look at the market as a whole, there will be a significant number of people to whom that does not apply. The policy also sends a signal to the aviation industry about Scotland being a good place to base aircraft and to fly services from, and that positive signal will influence marginal decisions.

Stephen Leckie: On the specific example of passenger number increases at Aberdeen airport, the bigger word that I would like to use is "stimulation". It is not just about the £7 reduction per passenger going to Aberdeen and how relevant that is if they are expensing it; it is about persuading the airlines to pour a lot of new routes into Scotland—for example, for a family of four or six who are travelling to Scotland or a business that is paying fares to get folk here for a conference. It is about providing stimulation to persuade the airlines to provide more routes to pour more visitors into Scotland.

The Convener: We will widen out the debate to the wider economic issues.

Ivan McKee: I thank the panel for coming. There are a couple of things that I want to touch on. The committee papers refer to an analysis by Edinburgh Airport. Are you familiar with that? Have you looked at the key data in it? Specifically, there are numbers for the economic impact of an extra 1 million passengers—I assume that that is based on growth in gross domestic product—and the jobs that would be created. Are you familiar with those numbers from an economic development point of view? Do they look right to you? Have you done any analysis of those numbers?

Garry Clark: Edinburgh Airport produced those numbers as an update on work that was carried out by York Aviation, which I think has done two or three reports over a number of years on the impacts of APD cuts in Scotland. A wider PWC study at UK level in 2015 or thereabouts indicated long-term gains for the Exchequer from the elimination of APD in the UK. We would say that there has been a consistent pattern of evidence of the economic impact.

Ivan McKee: You are comfortable with where the airport has got those numbers from. Could you tell me where those numbers have come from?

Garry Clark: I did not undertake the report.

Ivan McKee: You have not looked into how it did the calculations.

Garry Clark: I have not looked at the methodology; I have looked at the context of the reports.

Ivan McKee: You are just taking the headline figures and saying that they are okay.

Gareth Williams: The figures have been verified by Biggar Economics. They have been independently—

Ivan McKee: But you have not done any number crunching to say whether they look right or wrong, in the ball park or whatever.

Gareth Williams: From our perspective, they accord with the figures in other reports and international experience. We are not resourced to undertake that kind of work ourselves, but we have consistently asked others, such as the Scottish Government, to look at it.

Ivan McKee: Taking another angle, you guys are getting a free hit when you come here. We are asking, "Do you want a tax cut?" and you are saying, "Yes, please." Let me make the question a wee bit harder. I understand that there are a lot of segments in the market, such as inbound tourism, outbound tourism, business, long haul, domestic, short haul and European. Assuming that we are going for a 50 per cent reduction and given that the stated objective is to generate economic activity, if you had that money to spend, would you go for an across-the-board 50 per cent reduction, would you target a 100 per cent reduction in certain areas and have no change in other areas or would you want a combination of those in order to generate the biggest increase in economic activity? Where would you target the 50 per cent reduction if you had that money to spend?

Garry Clark: We have consistently said on behalf of the members in our network that the point of a reduction in APD would be to send out a clear signal about Scotland being open for business and to increase Scotland's connectivity and the number of air services with the rest of the world. We want a reduction to be implemented in as simple a way as possible and to have the maximum impact, and we said in our submission that a straight 50 per cent cut in APD across the board is probably the best way of doing that. That said, we are mindful of issues that have been raised regarding, for example, cross-border connectivity between Glasgow and Edinburgh and London. That is certainly a valid concern, although it is less of a concern in relation to Aberdeen airport, for example. However, the system should be as simple as possible and it should send a clear and strong message about Scotland's direction of travel.

Ivan McKee: Just to drill into that a bit more, it is clear, I think, that outbound tourism can potentially have a negative effect on the economy because people are spending their tourist money elsewhere rather than in Scotland. That is at one end of the scale, and there could be other areas at the other end of the scale. You are saying that the most important thing is to send a clear signal rather than to understand the specific economic impact of cutting the tax for different categories of travellers.

Garry Clark: I am not saying that we should not try to understand the economics. As the bill goes forward and measures are introduced to undertake the commitment that the Government has made, that needs to be backed by evidence. We would be as keen to see such evidence as we would be to see that for any other tax change that the Government chose to implement.

Ivan McKee: Do the other panel members have views on where they would like the benefit to fall?

Gareth Williams: Our interest is connectivity, which requires a mix of outbound and inbound journeys and is what airlines will look at, but it is hard to separate those out. Any work in that area would have to take into account how difficult it would be to administer the kind of differentiations that you described, particularly if the objective is eventually to abolish the tax.

As to our priorities, we think that simplicity is important. As I have said previously, the internationalisation of the economy is one of our highest priorities, and routes to Europe and beyond are a top priority. However, we would not want to ignore the fact that domestic connectivity is still important and that it is not all about connectivity with London, as there are lots of other important routes. We have to bear in mind the particular issues for the north of Scotland.

Stephen Leckie: If we were to stipulate the answer that we think that we would get from the airlines that pour visitors into Scotland, it would be that the reduction has to be across all three areas. That would make the biggest impact and send out the message that we want Scotland to increase its visitor numbers. It is then for the industry to figure out a way in which to look after them. We might talk about the expense of going to Europe, for example, but the value of the euro for Britain at the moment means that it is more expensive to go to Europe, which is good for us in Scotland. The way in which to capitalise on that is to react right now with the air departure tax.

Murdo Fraser: Good morning, gentlemen. I want to raise two issues, the first of which follows on neatly from Ivan McKee's questions and is about the balance between inbound and outbound journeys. One of the arguments that you will hear from people who are against reducing APD is that, if we make flights out of Scotland easier, we will just encourage more Scots to go overseas on holiday rather than taking holidays at home. Do you have any sense of what the balance is between inbound and outbound travel? How do you think reducing APD would encourage a net increase in holidays in Scotland?

11:15

Gareth Williams: We would point to the opportunity that exists in the billions of people out there who could come to Scotland compared with the size of the Scottish market. In Scotland, we have a strong presence of people from all parts of the world. I am sure that Stephen Leckie can talk more about particular opportunities, but we look at the number of international students and note that countries such as New Zealand are specifically targeting as one of their highest priorities the tourism opportunities that come from the presence of international students in their country. We intrinsically have the opportunity to bring in many more people than can go out on outbound flights.

Garry Clark: Stephen Leckie is the expert on tourism but, before he comes in, I would like to widen the question out slightly. I understand where Murdo Fraser is coming from on a net balance of tourists coming in and out of the country and what impact a reduction in air departure tax might have on that. However, it is equally important that we get businesspeople, including those from small and medium-sized enterprises, out of the country in order to forge alliances and enable trading in markets that we are targeting around the globe. It is difficult to put a boundary between a tourist leaving the country to spend money abroad and a businessperson leaving the country to generate more wealth for our country. We certainly encourage further growth in connectivity, and reducing ADT is a means of doing that, but for us it is as much about businesspeople going out there and forging those alliances as it is about tourists.

Stephen Leckie: The airlines are going to chase routes that they believe to be profitable, and that works in our favour as they pull more visitors into Scotland. It is up to us in tourism to figure out the best ways to look after those visitors and maximise the revenue growth from them. It is as simple as that.

Murdo Fraser: I will address my second question to Mr Leckie first. I want to put the debate into a wider context, if I can. We know about some of the pressures on tourism. I do not know whether you were here earlier when the Cabinet Secretary for Finance and the Constitution was here, but one issue that came up was the rates revaluation, which is affecting the tourism and hospitality sector quite severely. If the policy of reducing air departure tax proceeds, what impact will it have in balancing out some of the other concerns in the industry about the cost pressures that are coming through?

Stephen Leckie: The convener warned me before we started that this is about air departure tax and not about—

The Convener: Murdo Fraser's question is a fair one in the context of air departure tax.

Stephen Leckie: Right. I do not think that the industry has ever faced such an extreme challenge as it faces today with the significant rises in business rates, energy costs and food and drink costs. Some tourism businesses are telling me that they have a 20 per cent uplift in food and drink costs alone. We also need to consider the impacts of the living wage and the apprenticeship levy. The industry has never faced such tough times in terms of costs.

Revenue growth is our big challenge. In 2012, the "Tourism Scotland 2020" strategy reckoned on putting £1 billion of revenue on to tourism in Scotland. This time last year, we were looking at being £300 million short of that. The chief executive of Edinburgh Airport indicated that, if a decision was made to reduce air departure tax by 50 per cent, it would soak that up by 2020.

The massive uplift in costs for the industry might mean that some tourism businesses close because they just cannot afford to keep their doors open—it is as blunt and simple as that. Part of the potential rescue package might be that, if we pour more visitors into Scotland, we can increase our yield and our revenue, as that might be enough to save and rescue some businesses.

I hope that I have not gone away from the point, convener.

The Convener: Not at all. It is entirely in context. Does anyone else have a question? Patrick Harvie, is yours a supplementary question to that one?

Patrick Harvie: It is not a supplementary to that specific question, but it is on the economic impact.

The Convener: I need to bring Maree Todd in—we need to create a fair balance here, because she did not have a lot of time to contribute in the previous session either.

Maree Todd: Thank you, convener.

The Convener: You were going to talk about issues to do with the Highlands and Islands but also bring in rail issues.

Maree Todd: Yes. I represent the Highlands and Islands, which is an area with pretty poor connectivity. Connectivity is the key to life in the Highlands and Islands. People living on islands have a lack of alternatives to flights. The same can be said of some of the mainland airports, such as Wick. Last week, we talked about the alternative to flying between Edinburgh and Wick as being an eight-hour train journey, which is not an attractive proposition for any businessperson or tourist. I want to ask about that.

Tourism undoubtedly contributes a huge amount to the Highlands and Islands economy—proportionally more so than in the rest of the country—and we have a very vibrant sector. It also sustains some fairly fragile parts of Scotland. How might the tax reduction make a difference to that?

Garry Clark: To kick off on that point, APD is a tax that is not currently levied on departures from the Highlands and Islands, as I am sure you are well aware, but it is charged when people come from other airports to the Highlands and Islands. Certainly, any moves to reduce the cost burden of travelling to the Highlands and Islands have to be positive. For example, over the past few months, we have seen some of the costs being reduced for flights from Heathrow airport and the reintroduction of the Inverness to Heathrow service, which colleagues at Inverness Chamber of Commerce tell me is a very well-used service and one of the most popular services there; it has been a cost reduction that has helped to bring that about. If we can reduce the costs of connectivity within the UK, and of accessing the Highlands and Islands, that has to be positive.

Gareth Williams: I absolutely agree. Aviation and connectivity are essential for the Highlands and Islands. They are very important to the life sciences sector, for example, in addition to tourism, food and drink and lots of other sectors. As a minimum, we want to see the current position for the Highlands and Islands preserved with ADT.

There are some concerns about the relative position between the Highlands and Islands and the rest of Scotland changing, which might make it more attractive for people from the Highlands to fly from other airports in Scotland. That is an issue that we think has to be considered. I saw the evidence that Loganair gave last week, including its thoughts on how services could be further improved. I have not had the opportunity to discuss that with Loganair, but I thought that it made some interesting points.

Stephen Leckie: There are two aspects to Maree Todd's very well-made point: the Highlands and the islands. In the Highlands, where we run three hotels on the west coast—in Glencoe and Ballachulish and on the west Highland way—there is huge latent and unprecedented demand for hotel accommodation for groups and tours, leisure operators, couples and families. However, it is easy to get there—it is a nice drive to Glencoe from Edinburgh or Glasgow.

You would not say the same if you were asked to drive to Shetland, Orkney or Stornoway. You could not do it. If you were to take the ferry, it would take you a day to get to Shetland. Therefore the only option is to fly there, as I was privileged to do last year—and what a wonderful experience it is to fly to those areas.

In the Scottish Tourism Alliance, we are very conscious of those areas in the Highlands and Islands that are away out further and beyond, and their impact on the economy. They are very much part of Scotland and we are proud to say that. Skye is a much easier place to get to—with the Skye bridge, you can drive there. We would like to be able to fly to Skye as well.

Maree Todd: I would undoubtedly like us to be able to fly to Skye as well.

I want to ask you about the number that you quoted at the end of your report. You said that the UK is currently ranked at 140 out of 141 in the world for holiday costs. As I represent an area for which tourism is an important part of the economy, that statistic concerns me. Could you give me a little bit more detail on how that statistic was arrived at? Does it take into account aspects other than taxation, such as currency exchange, and which country is 141st?

Stephen Leckie: VAT is the biggest indicator in that particular bit of research. I have looked up the country that sits in last place, but I cannot remember what it is. I think that it was a country that we might not ordinarily recognise.

The Convener: I will come back at the end to wider economic questions and to Scottish budget issues. Now is a good chance for Neil Bibby to talk about rail.

Neil Bibby: Yes, I have a question on that and I will come back in on the budget later.

We have heard that passenger numbers are increasing and we discussed last week how rail travel between Edinburgh and London—or between Glasgow and London—is often more expensive than air travel. We know that train travel is less damaging to the environment than air travel—obviously you do not represent the airlines or the airports—so should we not make rail travel in the UK more affordable with our domestic travel policies?

Stephen Leckie: If you book rail travel in advance online, it is amazingly cheap, but if you were to phone today to book a train ticket for tomorrow from Edinburgh to London, it would be expensive. It is about educating folk who wish to use that form of transport that it is cheap online and in advance.

Neil Bibby: I cited an example last week of booking for a couple of weeks' time and finding that it was far more expensive to travel by rail than by air, so it is not just about educating people. I appreciate that there are deals from time to time, but rail travel is consistently more expensive. Do you think that rail travel is affordable?

Stephen Leckie: Yes, I absolutely do. If we take some specific examples, anything with a time and a space in this industry should be yield managed. The yield is maximised by charging the most when the demand is greatest, so it might have been the case, in the particular moment that you picked your sample flight to London—if it was London—that there was high demand for that flight so there was a high price, and that the rail option was cheaper.

Neil Bibby: Are there any other comments on that?

Garry Clark: There is an issue of comparability. As a result of the lack of competition for flights between Glasgow and Heathrow, for example, if you book at the last minute, it can be very difficult to get a seat or it can be fairly expensive, because of demand.

We recognise that there is a potential issue over APD and that there might be an impact on modal competition between rail and air for cross-border travel, which needs to be looked at. It is less of an issue for the Invernesses, the Fort Williams and the Aberdeens than it is for Glasgow and Edinburgh. Equally, as Stephen Leckie mentioned, it is perhaps less of an issue for services to the likes of Bristol and other regional airports than it is for services to London. There is an issue because, when the east coast franchise was awarded, the effect of a reduction in APD for domestic services was probably not a material consideration.

Gareth Williams: For us, it is about connectivity, so we want good air links and good rail links. There is competition for city centre to city centre travel but, if you are flying internationally from Scotland via Heathrow, rail is not a particularly attractive option. For domestic connectivity, there are lots of issues to unpack, but we agree that that needs to be thought about further as part of the general mix of improvements that we would like to see. There have been journey time reductions on rail that have made rail more attractive, but if rail is really going to become dominant from central Scotland to London, we need to push those journey times down further in addition to considering price issues and so on.

11:30

The Convener: James Kelly is next. We will try to wrap up the economic impact and the impact on the budget in one bit.

James Kelly: Looking at the financial memorandum, I note that the impact of a 50 per cent cut could be a reduction of up to £200 million in the Scottish budget. Is that a fair sacrifice to make in order to introduce the changes that have been proposed in the bill?

Garry Clark: We think that Government taxation policy in general should be aimed at growing the Scottish economy. If we are serious about funding public services in the long term, we ought to be pursuing tax policies that will grow our economy and ensure a better return for the taxpayer.

I mentioned the PWC report earlier. It suggested that, certainly at a UK level—it considered the UK situation only—the elimination of APD could ultimately result in a net benefit to the Exchequer as a result of the impacts on other elements of tax. Any decisions on tax need to be taken in the context of the priority of growing the Scottish economy.

Gareth Williams: We have a similar perspective on that. We have had a couple of years with quite weak growth in the Scottish economy. If we are going to be able to afford the public services that we all want in years to come, particularly with the new fiscal framework, we must have higher rates of growth, and internationalisation of the economy is key to that.

The export stats that came out recently showed reasonable progress, but they also indicated that the value of exports from SMEs has declined, in contrast with those of larger businesses. There is evidence that fewer SMEs have been engaged in exporting recently. We have to make it attractive to SMEs to start to explore markets and to make connections if we are going to have a diverse, resilient economy that will generate wealth for the country.

Garry Clark: Gareth Williams has mentioned export figures. One of the stories that those figures tell is that the most significant growth in Scottish exports over the past 15 years has been to markets outside the UK and the European Union. Those have grown by about 83 per cent. Enabling connectivity to those markets will help that opportunity to grow even further.

Stephen Leckie: The issue is about the stimulation factor and persuading airlines and visitors—including those on business tourism, those travelling for education purposes and folk coming here for both big and small events—to come not just to the main airports but to the regional airports. It is about persuading them that Scotland is a great place to come and visit—and it costs a bit less.

The ostensible figure of a £200 million drop in tax income will largely be offset. In fact, as I understand it from all the papers and the other stuff that has been written before, it will be more than compensated for over the next few years.

James Kelly: There remains a real question as to whether the Scottish budget will in fact be compensated to the tune of £200 million.

The Finance and Constitution Committee and MSPs in general will have to decide how best to allocate the moneys in the budget for supporting transport. I was interested in Mr Leckie's comment that rail travel is "amazingly cheap". Does he think that it is fair, for example, that the cost of a monthly ticket for an 18-year-old student doubles from £30 to £60 when they turn 19? That is for travel between Cambuslang and Glasgow Central—a distance of 4 miles—using a monthly ticket. Do you think that that is right? Would it be right for a couple on a joint income of £60,000 to enjoy reductions in their air fares, while people struggle to pay for their daily train journeys?

Stephen Leckie: I do not work in that sector. I thought that I was being asked about a comparison between the cost of air travel to London and the cost of rail travel to London, rather than a comparison with a trip from Cambuslang to Glasgow.

James Kelly: If we are talking about a 50 per cent reduction in air tax, do you think that it is right that people at the top of the income brackets, for example a couple with a joint income of £60,000, should enjoy reductions in the cost of their air travel, whereas someone on the living wage, for example, will not see any reduction in the cost of their train travel?

Stephen Leckie: That feels like an awfully leading question and one that is closed. It is not a question that I am comfortable answering. That is not why I am here today.

James Kelly: It is one of the issues that we will have to decide on in relation to the implications of the bill.

Patrick Harvie: I am a little sorry that there was not much appetite to explore that issue. I hope that the witnesses would agree that if we are to approve a course of action, we should have a good degree of confidence in the economic impact as well as the social and environmental impacts, compared with other courses of action that we might choose to pursue with the same resource. That comparison was a fair one to make.

There seems to be some confusion around the economic impact. We heard in a previous evidence session from Edinburgh Airport about the work that it was citing. There seems to be some variance between the Edinburgh Airport position and the figures from, for example, the Scottish Tourism Alliance. Edinburgh Airport claims that, at the top end, the job creation figures by 2021 would be 9,484, whereas the STA claims 10,609. What Edinburgh Airport claims about employment tax—by which I assume it means income tax—would be at most £2.3 million by 2021, whereas the STA claims that it will be £12.7 million. Finally, Edinburgh Airport says that, at most, the saving in social security benefits paid would be £52.2 million, whereas the STA says that they would be £106.1 million. Why is there such confusion around the figures?

Stephen Leckie: I would need to look into all those figures to understand exactly. For the first figure, the difference seems so little that I suggest that it is splitting hairs. The difference between the second and third figures might be to do with the comparison between the overnight stays and day visitors, for example. I cannot be certain without looking over the figures and understanding where they came from.

Patrick Harvie: Regarding the second figure on employment tax, I assume that you know where the STA's figure of £12.7 million came from. Do you have any greater confidence than Edinburgh Airport did on that figure being based on up-to-date information on changes in taxation, for example, given that the personal allowance has increased since 2013—that is when Edinburgh Airport's figures date from—which will clearly reduce the income tax paid by any additional employment that is generated? Are your figures up to date?

Stephen Leckie: As far as I am concerned, they are up to date.

Patrick Harvie: Are you saying that they are based on the income tax that would be generated, given the current personal allowance limits that have just been changed?

Stephen Leckie: No. I cannot answer that question.

Patrick Harvie: So you do not know whether they are up to date.

Stephen Leckie: No. I cannot answer the question that you are asking.

Patrick Harvie: Okay. Let us turn to the analysis of savings to the social security system that you have presented. You have chosen to use a website called entitledto.co.uk to calculate the benefit saving per job created and you have given us a figure of £10,000. Is that figure per year or during the lifetime of the employment?

Stephen Leckie: Can you direct me to the page that you are looking at?

Patrick Harvie: It is at the end of your written submission. The first bullet point on the final text page says:

> "In our analysis this would result in a net BENEFIT to the government purse."

The page after that includes the figures that you have given us. Towards the bottom right-hand corner, it says

> "Benefit savings per Job Created - £10,000"

and it cites entitledto.co.uk as a source.

Stephen Leckie: I am really sorry, but I cannot answer that. It feels like you are trying to trip me up, so I will need to go away and look at that.

Patrick Harvie: No—I am just trying to understand the information that you have given us. Do you know, for example, whether that includes devolved benefits such as the council tax benefit or only reserved benefits?

The Convener: The numbers were submitted by the STA and the questions are fair, but obviously Stephen Leckie cannot answer them today. Therefore, it would be fair for him to reflect on them and for us to ask the STA to write to the committee with a response.

Patrick Harvie: It would be helpful to understand why the STA chose to use the figures that it has given rather than, for example, information from HMRC, the Department for Work and Pensions or the Office for National Statistics, which would be more accurate.

Can any of the witnesses tell us what percentage of the fiscal benefit would come to the Scottish Government as opposed to the UK Government? They talk about additional tax being paid or savings through the social security system. Obviously, the Scottish Government will take the hit from reduced revenue from the aviation tax.

Gareth Williams: I cannot tell you the percentages. We look at the benefits for the economy as a whole and for public finances as a whole. That includes Scotland and the UK.

Patrick Harvie: But we do not know the extent of the benefits.

Gareth Williams: No.

Patrick Harvie: Okay. Perhaps we could make a comparison with countries that are introducing or reintroducing aviation taxes, such as Sweden and Norway. Both Sweden and Norway have concluded that there will be a net benefit to the public purse from the introduction of aviation taxes. A recent assessment of the German Parliament concluded that there was a net gain of €800 million from Germany's aviation tax. That was based on looking at both the revenues and the economic impact.

The Convener: Are you gentlemen aware of those studies?

Gareth Williams: No.

Garry Clark: Not specifically.

Patrick Harvie: It seems to me that we do not have any certainty about the economic impact, job creation, the fiscal impact on the public purse or, indeed, the extent to which tax changes have generated changes in aviation levels in other countries. Should we not have competent answers to such questions before we approve a course of action?

Garry Clark: Any economic analysis of those issues would be hugely helpful, but our organisations are not necessarily the ones that would undertake that analysis. It is still fair to point out—we mentioned this in our submission—that, even with a 50 per cent discount, we would still have the fourth-highest level of domestic and short-haul air taxes in Europe and the second-highest level of long-haul taxes. England and Wales are at the top.

Patrick Harvie: Aviation is growing despite that.

Garry Clark: The more it grows, the more connected we will be.

The Convener: Patrick, I understand why you are asking those questions, which are now on the record. However, we have heard from witnesses a number of times that the in-depth analysis that is required is a job for somebody else—specifically the Scottish Government—to do.

Patrick Harvie: I have asked about information that is in the witnesses' written submissions.

The Convener: I know that you have.

Patrick Harvie: I also have a question about the environmental impact, if it would be appropriate to move on to that now.

The Convener: We had better move on to it now or it will not be covered at all. On you go.

Patrick Harvie: I have not been convinced that the Scottish Government or anybody else is giving us a clear indication of what the environmental impact of the policy will be, either. The Scottish Government does not appear to have made a decision yet on whether it supports stabilising aviation industry emissions or reducing them over time—that is what the global aviation industry figure is doing. Do any of the witnesses have a view on how important a factor a reduction in aviation emissions is in Parliament's decision on the bill?

The Convener: Do the witnesses think that that is a question for them or for other organisations?

11:45

Gareth Williams: The bill and the rates are addressed separately. We support the bill in enabling the tax to be introduced in Scotland. As far as the rates are concerned, we have commented on the economic aspects, and Transport Scotland and others have done some work on the environmental issues. If there is a feeling that the rates must be looked at again, we would be perfectly content for that to happen.

Patrick Harvie: Scottish Chambers of Commerce's submission says that the fact that

"The efficiency of modern aircraft is ... improving rapidly"

should be seen as an opportunity to reduce emissions. Are you confident about that statement?

Garry Clark: We looked at work that the Committee on Climate Change undertook, which suggested that, during a period of passenger growth in UK aviation, emissions had largely fallen.

Patrick Harvie: The International Civil Aviation Organization takes the view that the industry is some 12 years behind its own targets for reducing emissions through efficiency. If we were to conclude that that was a more reliable assessment of the state of play, would we not be well advised to call for a pause on a policy that might lead to significant increases in aviation, based on the projected increase in passenger numbers?

Garry Clark: I do not think that we are in a position to choose one analysis over another.

Patrick Harvie: Sure—I am not asking you to—but if we were to conclude that the ICAO was correct, would it not be appropriate to pause the policy and to figure out how we can get a reduction in aviation emissions rather than to allow an increase?

Gareth Williams: The UK Government has made it clear that it does not regard APD as an environmental tax. Indeed, there is evidence that the way in which it has been applied leads to behaviour that increases emissions. The fact that people fly less directly to avoid paying APD has a negative impact on emissions.

The aviation sector has made strong progress and given strong commitments on reducing emissions in the future. If we take into account the fact that the Parliament will look at the rates on a regular basis and has some statutory commitments to meet on climate change, there seems to be plenty of opportunity to monitor progress.

Patrick Harvie: I think that the comment that APD, if it is seen as an environmental tax, is an ineffective tax is probably a fair judgment—you seem to be suggesting that the way in which it operates increases emissions. However, that is very much at odds with the Scottish Government's analysis, which shows that the impact of its policy will be to increase emissions.

Gareth Williams: The Scottish Government has looked at the totality. My point was that, on particular routes, APD can have a negative impact because it encourages people to fly less directly—for example, by going via Dublin or Amsterdam.

Patrick Harvie: Do you accept the Scottish Government's view that its proposal will increase emissions? Is that just something that we should live with?

Gareth Williams: I have no reason to doubt that view. I note that the increase is very modest and, as I suggested in our submission, there are other ways in which reductions in the emissions associated with aviation could be achieved—the provision of public transport links to airports is an example.

The Convener: I think that you have had a fair kick at the ball, Patrick.

I was listening to the discussion, so I do not know whether anyone else indicated that they would like to ask a final question. Neil Bibby has one. This will be the last question, unless there is a supplementary.

Neil Bibby: This week, the former Edinburgh MSP and minister Kenny MacAskill said that it was

"hard to see a credible argument"

for the proposed reduction in APD, which would only enrich airlines and airport operators. I think that he has a fair point, particularly when passenger numbers are increasing.

I want to follow up on James Kelly's point about budget priorities. We know that if there is a 50 per cent cut in APD, there will be a loss of at least £120 million in Government revenues. Do your organisations have a view on what services should be cut? The cabinet secretary often asks Opposition parties for views on what services should be cut when we propose particular policies, and I am sure that we will ask him the same question in relation to this proposal. I understand the economic growth argument that you make for reducing the tax, but a decision will have to be made about where that £120 million cut should be made. Should that money come from the national health service or education?

The Convener: I understand why you asked that, but I do not think that it is a fair question to ask the panel.

Neil Bibby: I think that it is a fair question to ask.

The Convener: Well, I do not, because our witnesses are not here to make a judgment across the whole portfolio. It is a fair question for a Government minister.

Neil Bibby: Surely we ask organisations where money should be saved and where it should be spent. I think that it is legitimate to ask that, but if you do not think so, that is fine.

The Convener: If any of the witnesses feel that the question is a legitimate one that they would like to answer, please feel free to do so.

Gareth Williams: I understand the fiscal position for the Parliament. I respectfully suggest that the question that needs to be asked is about the situation in five to 10 years' time. I go back to the point that was made about people on the living wage. We must ask ourselves how we are going to get a stronger Scottish economy and generate more wealth that can be shared fairly. To do that, we must have stronger international links, grow our tourism sector and increase our exports. I understand the short-term challenges, but I think that on such issues—as with everything—we must take a long-term perspective.

The Convener: I thank the witnesses for coming along to give evidence.

Meeting closed at 11:51.

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