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Official Report

FINANCE COMMITTEE

Thursday 25 November 2010

Session 3

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FINANCE COMMITTEE
27th Meeting 2010, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Tom McCabe (Hamilton South) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Malcolm Chisholm (Edinburgh North and Leith) (Lab)
*Linda Fabiani (Central Scotland) (SNP)
*Joe FitzPatrick (Dundee West) (SNP)
*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Gavin Brown (Lothians) (Con)
Lewis Macdonald (Aberdeen Central) (Lab)
Stewart Maxwell (West of Scotland) (SNP)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Danny Alexander (Chief Secretary to the Treasury)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Thursday 25 November 2010

[The Convener *opened the meeting at 13:02*]

United Kingdom Comprehensive Spending Review

The Convener (Andrew Welsh): Good afternoon and welcome to the 27th meeting in 2010 of the Finance Committee in the third session of the Scottish Parliament. I ask everyone to turn off mobile phones and pagers.

The only item on today's agenda is to take evidence on the United Kingdom comprehensive spending review. Once again, I welcome to the committee the Rt Hon Danny Alexander MP, Chief Secretary to the Treasury, as part of what I hope will be continuing dialogue and contact between our two Parliaments. I invite the chief secretary to make an opening statement.

Danny Alexander (Chief Secretary to the Treasury): Given the time that we have, I thought that instead of making a long opening statement I would simply thank the committee for inviting me back after my first evidence session. It is a pleasure to be back for a second time and I, too, hope that it will be part of an on-going dialogue. I should also say that I am accompanied by Helen Bailey, the director of public services at Her Majesty's Treasury.

I am sure that I will have a chance to say what I want to say in response to the committee's questions, so I think that it is better just to crack on.

The Convener: I wonder whether I can start with a matter that has been troubling my mind. As a supporter of the Calman commission tax proposals for Scotland, can you tell us what it will cost and how long it will take to establish the Calman tax machinery?

Danny Alexander: I certainly support the Calman tax proposals and, in the next few weeks, the Government will present details of their precise nature and publish a paper setting them out. Given that, I am not sure that I am in a position to answer your question in detail now but, convener, I am more than happy to write to you when the material is published to ensure that you have all the information that you need.

The Convener: I fully understand the situation but, given what our Parliament has just experienced and without going into any of the details that will be announced, are you able to assure us that there will be no financial or organisational obstacles or major problems that could delay or lead to costs being incurred in the implementation in principle and in practice of the Calman proposals?

Danny Alexander: I hope that I can give you that assurance. If the Scotland bill is passed and the Scottish Parliament signals its consent, matters will be devolved to the Scottish Government and therefore will not be wholly within the Westminster Government's control. However, I have confidence in the professionalism of Her Majesty's Revenue and Customs in carrying out its side of the job properly, and I am sure that it will continue to do so in the new situation. I can certainly reassure the committee that the UK Government will not put up any obstacles, and I think that there is consensus among many political parties at UK and Scottish level that the proposals are the right way forward. It is in that spirit of good will that we bring the ideas forward.

The Convener: Finance only works when it is well thought through and well implemented.

Danny Alexander: Indeed.

The Convener: I invite questions from members.

Tom McCabe (Hamilton South) (Lab): Over the past few weeks, there have been some pretty serious announcements about tuition fees and some pretty strong reactions to them, some of which have been desirable and some not. Prior to the election, your own party held the very strong view that it would have no truck with such a move and that people would have a chance to get a degree without having to bear the burden of tuition fees. A few days ago, I watched a television interview with your colleague Vince Cable, in which his approach was, "Yeah, we fought the election on our manifesto commitments, but we didn't win it. We've put those commitments to one side and we're now operating with the coalition agreement." Given that the contents of that manifesto constituted, I hope, the Liberal Democrats' principled position, does the approach that Vince Cable outlined predicate your approach to politics?

Danny Alexander: You are right to say that, like all the parties, we set out a manifesto. No party won the UK general election, although we can say that the Labour Government lost it. In such circumstances, it is necessary to have discussions to form a coalition Government—indeed, this Parliament has good experience of all that—and unless there is a suggestion to the contrary, those discussions will not result in 100 per cent of one party's manifesto and zero per cent of the other party's being implemented. It is a process of negotiation and discussion.

In the coalition agreement that has been published, we say that we will consider our Government's position in response to the Browne review and set out certain tests against which we will evaluate it. Of course, that review was set up by the previous Labour Government with a view to increasing fees—or at least that is what I think that Government wanted to do. Although the proposals that have come forward are difficult—in major part because of the parlous financial situation that we as a Government inherited—I think that they help to secure additional fairness in the system.

It is certainly worth saying that no one will pay a penny up front: one of the myths about these proposals is that people will have to pay tuition fees before they go to university. We are raising the income repayment threshold to £21,000, which means that no one will have to pay back a penny until they leave university and begin to earn that amount. As a result, a substantial number of people will pay back less than they would have had to under the current system. With the scholarship scheme, we are taking further steps to ensure that students from the lowest income backgrounds have the best possible chance to attend university.

Given that we are part of a coalition Government and given the really appalling state of the public finances that we as a Government inherited—and which is the biggest problem that the country faces—we have come forward with proposals that, although difficult, get the balance right.

Tom McCabe: I understand everything that you have said. However, in producing a manifesto, a party tries to make a promise to the people to whom it seeks to appeal. Are you saying that implicit in the negotiation of a coalition agreement is the reality that someone will have to break promises? Did you break promises?

Danny Alexander: I do not know what will happen in Scotland after the next election, but it would be interesting for a party to go into such negotiations planning to accept another party's manifesto 100 per cent, if that is what you are suggesting. That is not the way that coalitions normally work.

Tom McCabe: With respect, chief secretary, I am not suggesting that I know in any way what will happen after the next election—neither does anyone else.

Danny Alexander: I certainly do not.

On the front cover of our election manifesto, we set out the four major priorities of our campaign. First, we wanted a rise in income tax thresholds to ensure that people on lower incomes would pay less income tax in future. Secondly, we wanted investment in education that, through the pupil premium, was particularly focused on the early years and school. I think that we have delivered that in the spending review. One of the most scandalous situations in the UK is that, for many people from disadvantaged backgrounds, their life chances are far too determined by the circumstances of their birth. That happens not when someone is old enough to go to university but in the earliest years of life. In the spending review, we have chosen to make decisions that, in very tough financial circumstances, focus investment. For example, we have put additional investment into early years education for the most disadvantaged children, we have maintained the commitment to 15 hours of pre-school education that we introduced in the first months of our Government and we have introduced a pupil premium through which additional resources are focused on the education of the most disadvantaged children. That delivered in the education sphere the principal promise that we made in the election. Of course, being in a coalition involves give and take and taking forward commitments from both—or indeed more than two—partners. I do not apologise for that, because that is the nature of forming a coalition Government.

Tom McCabe: But I asked whether you broke a promise. I do not disagree with you on the benefit of investment in early years—this committee as much as any appreciates such measures—but did you break a promise?

Danny Alexander: In very difficult economic circumstances we have delivered an education system that promotes social mobility and fairness. I think that that is the right thing to do.

Tom McCabe: I will take that as a yes.

Danny Alexander: I am not going to repeat what I have just said, but in the circumstances faced by the coalition Government, and given our particular focus on supporting disadvantaged children in the earliest years, the balance of the decision that we have made is the right one.

Tom McCabe: I accept your contrition for breaking your promise.

The Convener: I remind members that the chief secretary is providing information on the impact of the UK CSR on devolved areas and that he is accountable to the Westminster Government.

Derek Brownlee (South of Scotland) (Con): On the reference in the CSR to replacing end-year flexibility, I accept the comment in the spending review document that a large stock of EYF is potentially available. Of course, the position in Scotland is that, since 2007, the stock has been run down quite substantially with the Treasury's consent. In establishing a new system to replace EYF, how does the UK Government intend to ensure that the devolved Administrations have appropriate incentives not to spend their whole budget in the year for which it is available without treating them as yet another Whitehall department, which they are quite clearly not?

Danny Alexander: We would not in any way wish to treat devolved Administrations as just another Whitehall department; clearly they are not, and therefore have to be treated differently. That said, you are also right to point out that the EYF system was established to deal with the problem of departments and Governments seeking to spend out their budgets in the last few months in often unwise and wasteful ways. In dealing with that problem, however, EYF also allowed the build-up of big stocks, which constitute a significant fiscal risk to the Exchequer, and in the very difficult financial circumstances that we face we have to manage those risks much more tightly.

We will come out with details in due course, but we are considering a system that allows planned underspends to be carried forward from one year to the next. Whitehall departments will need to seek the Treasury's permission to do so, but I think that, in recognition of the position that you have just set out, there will be two additional flexibilities for the Scottish Government and the other devolved Administrations. First, underspends can be carried forward without Treasury permission. Secondly, although for UK Government departments the current system will end at the end of this financial year—there will be a hard end and then the new system will start—the Scottish Government and the other devolved Administrations will be able to carry forward underspends at the end of this financial year into next year. After all, it would not be fair to impose the same closure on carry-through that we will apply to UK Government departments this year.

Derek Brownlee: I want to check that I have understood correctly. Is the main difference between what is likely to be proposed and the current situation the fact that the accumulated stocks for UK departments this year and the Scottish Government next year will be abolished and you will start from a zero balance?

13:15

Danny Alexander: All accumulated stocks will be abolished because that is where the principal spending risk exists. UK departments will have no ability to carry forward from this year to next year. However, I propose that the Scottish Government will be able to carry forward from this year to next year—that is an additional flexibility—and that there will be no requirement on it to seek Treasury permission to do that. We would hope to be kept informed so that we could plan and manage the finances in future but, in recognition of the difference and the importance of the devolution settlement, there would be no obligation on the Scottish Government to inform us in the way that there would be on UK departments.

Derek Brownlee: I will press you further on that, because it is pertinent to some of our regular discussions on budget decisions in the Parliament. I take it from what you say that if, at the end of this financial year, the Scottish Government had an underspend of £100 million, that could be rolled forward to the next financial year. If, in the next financial year, it had an underspend of £150 million, would the likely position be that, if it were to spend the £100 million underspend from this year, the £150 million from next year would be available too because it was after the drawdown of stocks? Is the position that, if the Scottish Government can use any accumulated underspend at the end of this year in the next financial year, it will not lose any money? You understand the political significance of the suggestion that an accumulated stock might be written off.

Danny Alexander: I certainly do not intend that we would take away underspends at the end of any given year. I expect that, in the current financial circumstances, it is less likely that large underspends will build up at the end of a financial year. Therefore, we are dealing with a risk that is entirely manageable within the spending framework that we have set out. I do not foresee that circumstance arising.

Derek Brownlee: Would it be reasonable to assume that if the Scottish Government—whatever the complexion of that Government is—managed to use any underspend from this financial year in the next financial year, it would not lose any resource to which it assumed it was entitled as a result of the spending review allocations?

Danny Alexander: Yes, it is reasonable for you to assume that.

Joe FitzPatrick (Dundee West) (SNP): The first matter about which I will ask is the fossil fuel levy. The minister will be aware that representatives of Scottish Renewables, RSPB Scotland, the Scottish Council for Development and Industry, the Scottish Trades Union Congress, Scottish Chambers of Commerce, WWF Scotland and Friends of the Earth Scotland all wrote to the Chancellor of the Exchequer. In that letter, they said:

> "we understand that the £250m Green Investment Bank funding which would be ring-fenced to Scottish projects will not be available until 2013. This means that the money will not be available to invest in the necessary infrastructure to attract offshore wind manufacturing as manufacturers choose their sites over the next year ready for the increase in offshore wind development around our coast."

Given the industry's concern, do you not think that the CSR should have included a line that allowed the Scottish Government and the Scottish Parliament to access money that is in fact Scotland's, so that we could invest it in jobs that we desperately need right now?

Danny Alexander: That is an important issue and I am glad to have the opportunity to address it, so I thank you for asking the question. I have met representatives of the industry, including on a visit this morning, and I get the sense that the proposal for the green investment bank is widely welcomed as a significant new investment in the renewables industries, which are a huge part of Scotland's future economy and the UK's. They are critical to achieving the carbon emissions reduction targets that we have all rightly set ourselves.

The position with the green investment bank is that we are working on and testing the model. We will bring it forward in spring next year. We have allocated £1 billion of taxpayers' money in the budget for the financial year 2013-14, but the green investment bank will get going well in advance of that. We have also said that we will look to put additional resource beyond that into the bank, potentially through asset sales.

There has been a continuing issue with the fossil fuel levy, which we sought to address in the coalition agreement. The Scottish Government's budget is set through the Barnett formula—that is how departmental expenditure limits for the Scottish Government and other devolved Administrations are set and we cannot simply add to those. The Scottish Government is free to draw down the fossil fuel levy—over a period of time if it wishes—to support its investment programme in renewables. If it does so, as a way of resolving the problem and as a signal of the Government's commitment to the renewables industry in Scotland, we will set aside a further £250 million to support investment in Scottish projects through the green investment bank. That is a positive offer to resolve a significant dispute and, what is more, put real, substantial additional investment into the renewables sector over the next few years, which is a critical time for that industry.

To be honest, I am disappointed with the response that we have had so far from the Scottish Government. I had hoped for a much more positive response to a proposal that would put substantial additional resources into Scottish renewables through our green investment bank, which will, in turn, enable additional private funds to be levered in. Plans for spending that money could be established well in advance of the money's being available, so it would help to provide precisely the certainty that representatives of Pelamis Wave Power, which I visited this morning, told me is important to them.

Joe FitzPatrick: It is not Government money; it is money that Scottish fuel bill payers have paid, so it is Scotland's money. The industry tells us that it needs the money now. The decisions are being made now about where the industries are locating, so I ask you to go away and consider whether there are ways to release the money this year so that it can be applied, to Scotland's benefit, when we need it.

Another matter that is having an impact on jobs is the Treasury's decision to increase the rate of borrowing for local authorities, which is of great concern. My local authority—Dundee City Council—estimates that the increase will cost it some £400,000. If that were to be replicated throughout the country, we would be talking about tens of millions of pounds of capital investment being lost. How many jobs in the construction industry does the Treasury calculate are at risk from that rate increase?

Danny Alexander: I will answer your last point on the green investment bank first and then come on to your second question.

The Scottish Government is free to draw the money down, but we cannot simply add to its budget. We have a long-established system, which is recognised and spelled out in the statement of funding policy. Under that system, the Scottish Government's spending totals are determined by the Barnett formula. Therefore, we have sought to resolve the dispute in a way that supports a shared objective—I hope that we all share the objective of investing in renewables—and in a way that provides greater money than the remaining balances and allows that money to be ring fenced for projects in Scotland. That is a positive and generous proposal. I hope that, on reflection and after discussion—which has not, so far, been forthcoming—the Scottish ministers in the current Government or a future one will seek to avail themselves of it.

On the borrowing issue, the increase in interest rate for the Public Works Loan Board, which I think is what you refer to, will apply only to new borrowing in future. It will not apply to the existing stock of borrowing. It will still allow local authorities to borrow at rates considerably in advance of what they could obtain commercially. It strikes the right balance between continuing to allow prudential borrowing to take place and trying to ensure that we manage the amount of prudential borrowing that goes on across the economy as a whole, given that the principal problem that we are trying to address is a massive budget deficit—the largest in our country's history—and that we need to get borrowing on a falling path over time, as is our fiscal mandate.

Local authorities will be free to borrow on those terms, so the impact on jobs depends entirely on decisions that they make, which I am not in a position to foretell.

Joe FitzPatrick: The concern is that, if money is being paid for that increased rate, it is not available to buy capital because it cannot be spent twice. It would be useful to find out how much you estimate that cost to be throughout the country.

My final question relates to comments that George Osborne made to the Treasury Select Committee on 4 November. He said:

> "We are looking at whether this whole framework of DEL-AME needs to be revisited, particularly the AME part of it, because this is a very large budget—I think virtually half of Government spending. Although it's called 'annually managed expenditure', it's not really managed. So we are looking at a new framework and I hope to say more about that in the Budget on 23 March."

How is that announcement on 23 March likely to impact on Scotland's budget in future years?

Danny Alexander: I cannot on 25 November set out an announcement that will be made on 23 March, but I will happily describe the issue, if that would help.

It is worth saying, on your previous question about borrowing, that the Scottish Government sets the framework for local government in Scotland. The proposed budget suggests a further year of the council tax freeze. Such matters relate directly to the way in which Scottish local authorities exercise their borrowing powers. I would say that that is having at least as much impact as the borrowing rate.

I cannot set out what decisions will be made in the budget, but the issue that we are addressing is that although there is close control of departmental spending, annually managed expenditure, by definition, fluctuates and we simply have to meet those obligations. Over time, particularly in respect of the welfare system, which is where that budget has grown dramatically in recent years, we are getting to a position in which not far off half of public spending is AME. We are considering whether it is possible to put in place frameworks for some aspects of AME that seek at least partly to manage it more so that there is an element of control over those budgets. Clearly, it is not possible to have total control over them because fluctuations that are caused by economic circumstances, for example, would still have to be taken into account.

However, in some areas of AME, we are looking closely at whether we can have further control. Because the Scottish Government's block grant is departmental expenditure limit money, I would not foresee that having a great effect on the future spending power of the Scottish Government.

Joe FitzPatrick: Mr Osborne specifically said that he was looking at the DEL-AME framework. If there is a change in the balance between DEL and AME, particularly if changes are made to departmental expenditure limits—

Danny Alexander: I think that I can reassure you on that point. Rather than proposing to change the framework, we are looking at whether there are parts of AME over which we can establish a greater degree of control. At the moment, the split between DEL and AME is such that half of public expenditure takes place on either side of the line. If we can get greater control of some parts of AME, that will increase our spending control, which is extremely important, given the task that we have set ourselves on public spending.

Joe FitzPatrick: Are you telling me that if there are major changes in public services in England that impact on DEL, that will not impact on Scotland's budget?

Danny Alexander: In the spending review, the UK Government set out spending plans for the next four years, which I think was a highly responsible decision and is in sharp contrast to the Scottish Government's decision. That means that the Barnett consequentials of those plans are clear for the next four years. Those numbers have been set out and we do not intend to change them. There is plenty of information available to allow the Scottish Government to plan more than one year ahead, should it wish to. Such an approach might provide a greater degree of certainty for public services in Scotland. On Monday, when I appeared before the equivalent of this committee in Wales, the point was made that there it had been possible to produce spending plans for the next three years, which I think makes sense and represents a responsible approach to public spending.

The Convener: One extra question turned out to be several. I want to ensure that everyone gets in.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Joe FitzPatrick asked about the increase in interest rates for local authorities. I looked at the Debt Management Office website and was interested to learn that the current rate for any new borrowing by authorities in Scotland is still lower than it was the day that the Scottish Government took office. If there is a problem now, it was a bigger problem then.

The budget document that the Scottish Government issued last week says that the Scottish budget is to be cut by £1.3 billion, whereas the Treasury puts the figure at £900 million. Why is there that discrepancy of £400 million?

13:30

Danny Alexander: I think that there is a discrepancy because we have taken the baseline expenditure and, I think, the Scottish Government's figures take the planned outturns of expenditure for this financial year. That accounts for the different positions on the figures for this year; it is basically to do with the difference in the calculation of the baseline.

Jeremy Purvis: So, when the Scottish Government says that the reductions have been determined not by policy choices made in Scotland but by those of the UK Government in Westminster, you do not think that that is true.

Danny Alexander: It is true to say that the amount of money that the Scottish Government has to spend next year and over the subsequent three years is a consequence, determined through the Barnett formula, of the decisions that we have made on UK Government expenditure. I am looking to my officials for the details.

On the percentage, we have relied on the actual baseline information, whereas the Scottish Government has chosen, for whatever reason, to present the information in a different way. I cannot comment on its motivations for doing so, but the committee should be free to draw its own conclusions.

I now have the relevant bit of paper in front of me. As I said, the primary difference is to do with the 2010-11 figure. We used a comparable baseline, which is the baseline against which the 2014-15 budgets are calculated, whereas the Scottish Government used planned expenditure, thus the Scottish Government's figures for 2010-11 are inflated by things such as EYF and its decision to defer the Scottish share of the £6.2 billion cut in 2010-11 to 2011-12. Things like EYF are one-offs, so we would not include them in the baseline, whereas the Scottish Government has used them in its calculation by taking the figure for planned expenditure. I hope that that answers your question.

Jeremy Purvis: Thank you.

The language in the Scottish Government's budget documentation and in the Cabinet Secretary for Finance and Sustainable Growth's statement last week made it clear that the Scottish Government believes that the reductions are too fast and too deep, and too far and too deep—those are variations on a theme. The cabinet secretary was also very clear last week in telling the Parliament that he believes that the fiscal consolidation period is a year swifter and that it is going too fast. When you had discussions with the cabinet secretary before the spending review, did the Scottish Government ask you to defer any reductions for Scotland for next year, so that there would be no reductions in the Scottish budget?

Danny Alexander: First, it may be of interest to the committee that we had regular conversations at official and ministerial level—including through the finance ministers quadrilateral process, whereby the finance ministers of the devolved Administrations meet me regularly to talk about shared issues. Those are private meetings, but I am sure that John Swinney would not mind my saying that in those meetings he made the point about going too far and too fast. That being his opinion, he took the opportunity to express it, although I think that he is wrong on that subject.

As I think that I explained when I last appeared before the committee to talk about the budget, the pace of deficit reduction that we have chosen is right and is necessary to stabilise the public finances and ensure that we can go forward on a sound basis and lay the foundations for future prosperity. That is the basis on which we made those decisions, but I talked about that previously.

I do not recall the specific point that you ask about being made to me personally, but it may well have been made at official level.

Jeremy Purvis: Given the Scottish Government's position that the reductions are too far and too fast, did it ever say in its discussions with you what would not be too far and too fast?

Danny Alexander: I do not recall an alternative profile of expenditure being offered or suggested. One issue that was raised was the question of the £6.2 billion in-year cuts and we obviously took the decision to allow the devolved Administrations greater flexibility over when those cuts were taken. Of course, the decision to defer those cuts to next year means that the reductions next year are steeper than they otherwise would have been and that the process is a less managed one, but that is a decision that it is up to the Scottish Government to take. That point was certainly made to me in those meetings.

Jeremy Purvis: This August, the Scottish Government did not continue the tax-varying power of this Parliament. Since you have been chief secretary, and over the summer until August, did ministers in the Scottish Government ever raise concerns on the issue, with you or at ministerial level?

Danny Alexander: No.

Jeremy Purvis: In the spending review, you announced additional funding for broadband services in Scotland's rural areas. The Highlands was successful in that regard—I am sure that you support that.

Danny Alexander: I do.

Jeremy Purvis: Scotland put forward two bids. The Scottish Government ranked them at the request of BDUK, and the Highlands bid was ahead of the south of Scotland bid. What further plans are there to deliver faster broadband speeds across Scotland through UK Government investment, particularly with regard to an area that I am interested in, which is my constituency in the south of Scotland?

Danny Alexander: That is a very important issue. Investment in broadband is an area of capital investment that we sought to prioritise in the spending review, given superfast broadband's transformative potential for all parts of the country. The pilot projects have particularly focused on those parts of the country where it is much less likely that commercial roll-out will occur on its own and which might otherwise be left behind. The pilot projects are designed precisely to test the technology to ensure that it can work in those circumstances and to show how it can be developed.

From memory, I think that we set aside £530 million over the course of the spending review period. Both the UK Government contribution and future contributions through the BBC will, I hope, allow us to deliver our objective of supporting significant further roll-out of this technology later in the course of the parliament. There will be future opportunities and I urge those areas that are interested in this to continue their representations to BDUK and at ministerial level. It is certainly not the case that the UK Government seized the pilots and that that is all that we will do. Quite the opposite. The pilots are setting the path. We see an important role for continued public investment to support the roll-out in areas where the commercial sector would not do it on its own.

David Whitton (Strathkelvin and Bearsden) (Lab): I have a couple of quick questions about the green investment bank, chief secretary. We, of course, would like it to be based in Scotland, preferably in Edinburgh. As a Scottish MP, do you support that view?

Danny Alexander: It would perhaps not be right for me as a UK Government minister to express a view on the location of the green investment bank, but I would certainly encourage you to continue making that case, given Scotland's enormous potential to lead the development of the renewables sector. It is the case that, at the moment, some 48 per cent of the renewable electricity generation in the UK comes from Scotland, which demonstrates how historical investment in hydro power and more recent investments in other areas put Scotland at the forefront of the renewables sector.

David Whitton: Given that that is the case, and I am delighted to hear you acknowledge it, how will decisions be made about where to allocate the sums that will be distributed by the green investment bank? Will they be made on the basis that the area that is producing most of the renewable energy will get the lion's share of the investment?

Danny Alexander: As I said in answer to earlier questions, we are still doing testing and design work on precisely how the green investment bank will operate. We will make further announcements about that in the spring. The idea is that it will be an operation that makes judgments on a rational basis about the projects that are furthest forward, where the investment is most needed, where perhaps the risks are highest and where an intervention that reduces those risks will help to lever in additional commercial investment. We have, obviously, ring fenced some money for Scotland already, which is a significant chunk of money that will help to lever in additional investment.

We will not set geographical criteria for the money. Decisions will be based on where the projects are coming forward and where the commercial decisions by the green investment bank suggest that investment is most needed. You might well argue that there will be many such opportunities in Scotland.

David Whitton: On geographical impacts, what impact assessment was carried out by the UK Government on the spending review's likely impact on the regions of Britain, particularly Scotland?

Danny Alexander: Much of the impact depends on consequent decisions about how money is spent and allocated, which are not matters for the UK Government. Obviously in Scotland's case the way in which the Scottish Government—

David Whitton: I am sorry to interrupt you, chief secretary, but some of the UK Government's decisions, particularly in relation to defence and benefits spending, will have impacts.

Danny Alexander: I am happy to talk about defence and benefits spending, but I must point out that aggregate impacts, if that is what you are asking about, are a consequence of a whole range of decisions that have to be taken by departments, the Scottish Government and, indeed, local authorities over the coming time. It is not possible to offer anything cumulative in that sense.

In the spending review, we signalled our wish to ensure that there were no disproportionate impacts and that no local hot spots were created. As a result, we will go through a process in order to understand in advance the workforce planning that departments might carry out, or the impact of particular decisions, in order to avoid or mitigate any that might have a particularly heavy localised impact.

David Whitton: What do you say to the people of Lossiemouth, where the proposed closure of the Royal Air Force base will have a hugely disproportionate effect on the local economy?

Danny Alexander: I am fully aware of the fact that, if that decision were to go ahead, it would have a big impact. I know that a lot of work is being carried out locally and through the official level task force; in fact, I think that the task force is meeting today to discuss the matter between departments. Of course, decisions about bases have to be made by the Ministry of Defence according to defence logic. The whole process still has some time to run and the people of Lossiemouth should continue to make their economic case.

David Whitton: I am sure that they will make a strong case. In fact, their case is supported by every party in this Parliament.

Danny Alexander: Indeed.

David Whitton: On the particular effects of the benefits proposals, do you accept the Institute for Fiscal Studies's view that your budget and spending review are regressive and will impact most on the poorest people?

Danny Alexander: No. As chart B.6 on page 100 of the spending review document shows, we have assessed in detail the cumulative impact of the fiscal consolidation that we are introducing and the impact of our spending, welfare and tax decisions. That analysis shows that although everyone in the country will share the burden—I completely accept that and stress that I understand that every one of our decisions has an impact on people or on the services that people rely on—the largest share is paid by the top quintile of the population and the overall impact is progressive across income distribution.

As for welfare, our decisions obviously have an impact on the people who claim particular benefits. For example, higher rate taxpayers in Scotland will no longer receive child benefit. However, the failure to reform the welfare system over the past few years has been one of the most catastrophic failures of Governments and one of the signal failures of the previous Government was that many thousands of people in Scotland were not offered the necessary support, help and encouragement to get off benefits and into work.

I hope that the combination of difficult decisions that we have taken on welfare, the additional incentives that we are providing and the soon-to-be-announced work programme—which, through a new payment-by-results model in which the committee, given its interest in preventative spending, might well be interested—will provide the most comprehensive system of support to get people off benefits and into work. It will give Scotland a huge opportunity to bring down the number of people on welfare and get them into work over the next few years.

David Whitton: I am more interested in what you have to say about the impact of these measures on individuals than I am in charts. What about the fact that women will have to bear 70 per cent of the cuts? Given that more than a third of the jobs that are advertised in job centres are for less than 16 hours, how many families will lose out when the minimum hours for the working tax credit increase from 16 to 24 a week?

Danny Alexander: I am not sure that I agree with your analysis on women, which is based on all sorts of presumptions that I do not think are necessarily accurate, such as presumptions on the impact of public sector job losses and on the analysis of—

David Whitton: You are aware of the legal challenge relating to the impact on women, are you not?

13:45

Danny Alexander: There was a legal challenge to the budget. I think that I am right in saying that it was rejected by the court a few months ago—although there may be an appeal by the Fawcett Society. However, I think that the issue was dealt with by the judicial review a few months ago. I do not accept your analysis.

Linda Fabiani (Central Scotland) (SNP): As the convener and Mr Purvis did, I want to ask about the forthcoming Scotland bill and its implementation. I am thinking in particular about the functionality of current infrastructure systems, but not HMRC, which has been well covered. I want to ask about the UK benefits system. Tax credits are paid through a person's salary, income support is paid separately and housing benefit is administered by local authorities. I have met practitioners in all those fields and, because of the lack of an integrated tax and benefits system, they are concerned about the ability to implement the proposals that may appear in your Scotland bill. Has that been considered? Will it be feasible to operate a system that I imagine will be along the lines of what was proposed by the Calman commission?

Danny Alexander: It would not be fair of me to set out the details of what we are working on before the Secretary of State for Scotland does so to the House of Commons, to which he is accountable. However, I can certainly say that those issues are being considered fully. I am confident that operational arrangements will be in place for what will be, I think, the most extensive devolution of financial power to Scotland since the Act of Union of 1707. We will ensure that it can work and that it will be delivered effectively. For example, we will be devolving stamp duty, which will offer significant financial flexibility to the Scottish Government and will allow it to operate in a way that will be of real advantage to the people of Scotland. We are considering the operational issues carefully, and we have been working with people from HMRC and the Department for Work and Pensions.

You will know that we are undertaking significant reform of the welfare system, which will lead to the introduction of the universal credit. In answer to a point that was raised by Mr Whitton, I say that the universal credit will ensure that people will know that they will be better off if they go to work for however few hours each week—perhaps fewer than 16, for example. It will be important to ensure that the universal credit process is aligned with all the other systems. I am confident that it will be.

Linda Fabiani: Because of the issues that you have just discussed, and because of the public services reform agenda, might we be talking about an enabling bill rather than a substantive bill?

Danny Alexander: If the convener will excuse me, I do not think that it is right for me to talk about the details of a bill that has not yet been published for the UK Parliament. I have explained my commitment to its principles and to what it seeks to achieve. The committee will have plenty of time to scrutinise it once it has been published.

Linda Fabiani: Okay—fair enough.

The Convener: I am sure that Ms Fabiani has more questions.

Linda Fabiani: Yes, I do.

Danny Alexander: I should hope so.

Linda Fabiani: Regardless of the means of tax implementation in the forthcoming Scotland bill, a genuine concern —one that has been expressed by many people—arises about the gap that will occur when public expenditure rises faster than income. If your bill reflects what went before, we will be talking about the 10p tax rate.

Issues also arise relating to a fall in income tax in the shorter term, because of the changes that your budget made to the allowances system. I know that it has been said that the rise in VAT will help to compensate for that—in terms of UK Government income—but we in Scotland will not receive any of the money that comes from the increase in VAT, although Scottish consumers will have to pay the increase in VAT. Has that been considered carefully by the UK Governmen?

Danny Alexander: We have given very careful consideration to what are described as policy spill-over issues. One of the things that we have set out is that if as a Government we choose, for example, to increase income tax allowance further, there would be a consequent adjustment to ensure that Scotland was no better or worse off financially as a consequence of that change. Our approach to that will be set out in more detail as and when we publish the bill and the papers that go alongside it. Of course, there will be transitional provisions, based on the principle that there should be no detriment in either direction.

I must say, though, that the whole purpose of the changes is to give the Scottish Parliament significantly increased financial responsibility that it can then use as it wishes and take the consequences of those choices. It could use the levers that it has to try to support additional growth in the Scottish economy or for any other purposes that the Scottish Parliament should want to pursue. That additional responsibility is the central part of the reforms. I hope that it will be welcomed across the entire spectrum of opinion within the committee.

Linda Fabiani: Aside from that particular issue, quite major reforms are being planned by your Government. I have been reading recently about the education reforms. Can you give us any idea about major reforms that you see coming up that could have Barnett consequentials for Scotland?

Danny Alexander: As I said in answer to an earlier question, we have set out our spending plans for the next four years, to the end of this Parliament. Those spending plans include the costs of reforms, so the reforms will have to be accommodated within those budgets. I would not foresee, as a consequence, there being changes to the Barnett consequentials.

One of the benefits of planning the reforms and planning our spending is to have budgets over a four-year period so that public sector organisations and people working on the reforms know clearly the financial circumstances that they face. It would be a great deal harder to manage a credible and coherent programme of reform if we were operating on the basis of budgets that were set from one year to the next. Our reforms in the health service, in education, in welfare and in the criminal justice system are designed to deliver improvements to the services and to deliver improvements in the context of—in some cases at least—reducing or more constrained budgets.

Linda Fabiani: My last point picks up directly from something that Jeremy Purvis was talking about. You said that you support the commitment to broadband in rural areas. Are you also still committed to the importance of increasing the winter fuel allowance for people in rural areas?

Danny Alexander: One of the decisions that we made in the spending review was to make permanent the increase in cold weather payments. The previous Government increased them from £8.50 to £25 for the year before the election only. I do not think that those increases should be a matter of electoral politics; they should be permanent. So, we have fixed the rate of cold weather payments at £25—the new permanent level. I am pleased to say that the first payments for this winter were made this week at the £25 level to people who live in the Aviemore weather station area. As the winter bites, which seems to be happening sooner than expected, people who suffer in very cold areas will have that level of support going forward.

Linda Fabiani: I think that you were committed previously, however, to the recognition that people in rural areas find it much more expensive generally to stay warm in winter.

Danny Alexander: As Liberal Democrats, we did not have a proposal to increase the winter fuel payment, so that issue does not arise. However, we have maintained the winter fuel payment in the spending review so that that support continues to be offered to pensioners who are likely to suffer.

Linda Fabiani: That is regardless of where they live.

Danny Alexander: That is right, but that was always our proposal.

Linda Fabiani: So, your prior view was a personal one. I understand.

Danny Alexander: I am not sure what you are referring to, but I am very pleased that we have maintained the increased level of cold weather payments for future years.

The Convener: I regret that Malcolm Chisholm had to leave, but I can sneak in two quick questions.

Derek Brownlee: There is a line in the spending review about localising council tax benefit to councils in England and moving it to the Scottish Government for Scotland. That is obviously a vexed issue. It was a live issue around the time of the original devolution white paper. Circumstances changed, if I recall correctly, because of the complexities of council tax benefit and its interaction with other benefits. Is the intention to give the Scottish Government full policy discretion on council tax benefit as well as 90 per cent of the cash, or is there some sort of limitation?

Danny Alexander: The details of how we implement that proposal will be announced in due course, but the intention is to devolve to local authorities and devolved Administrations the budget and the responsibility for setting the parameters for what might more properly be called a rebate on council tax, rather than a benefit. We will work on the details of precisely how that will function and will set them out in due course.

Jeremy Purvis: The UK coalition recently announced that it is willing to provide a £7 billion package of support for Ireland. Will that have any impact on the Scottish budget?

Danny Alexander: No, it will not. The potential support for Ireland—it is still the subject of international discussion—is part of an international effort to help the country to stabilise its economic position. The problems were caused largely by its being a small country that was very exposed to large banks that have significant financial problems. We in Scotland are familiar with those problems, but have the benefit of being part of a wider United Kingdom to help us through them.

The Convener: Speaker Boothroyd used to say, “Time’s up.” It almost is.

Danny Alexander: I will happily take more questions if the committee has them.

David Whitton: If Mr Alexander wishes to answer some more questions, I am sure that we can ask him some.

Danny Alexander: You have plenty of them. I would not wish you to feel that you were being short-changed.

David Whitton: I will ask you a couple of quick questions about bank bonuses, as we have you here. Should there be a cap of £2,500 on bonuses and do you support a 10 per cent tax on bank profits?

Danny Alexander: The position that the Government has set out already goes a great deal further than the previous Government did. We have established a bank levy. We did so unilaterally, although other countries have followed suit. The previous Government refused to do that. Once that levy is fully up and running, it will raise around £2.5 billion a year in recognition of the guarantee that the Government provides to the banking system.

We are taking further action to ensure that the banks sign up to the concordat on taxation so that they do not engage in processes that encourage tax avoidance among themselves or others. We are also working with them to try to ensure greater lending to small businesses and, recently, the banking industry proposed an additional banking equity fund, although I cannot remember the exact title.

Those are all steps that will help to ensure that the sector picks up part of the cost of dealing with the consequences of the financial crisis which, of course, was caused not only by banks but by politicians who failed to regulate them properly.

David Whitton: With all due respect, I do not think that you answered either of the questions that I asked you. Will you introduce a cap on bonuses and do you support a 10 per cent tax on bank profits?

Danny Alexander: I have set out what the Government is doing on that. If we have further announcements to make, we will make them in the proper way.

The Convener: That was a 10-second answer—very good. I will give you the last word, chief secretary: would you like to make any final comments?

Danny Alexander: No. I thank the committee once again for inviting me. It is a good part of the spirit of co-operation that we are trying to engender between Westminster and Holyrood. I look forward to a future appearance, should you or your successors choose to invite me.

The Convener: I thank you for your presence here, the time that you have spent with us and the responses that you gave. I hope that such dialogues and contacts between our two Parliaments will continue.

Meeting closed at 13:59.

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