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Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 11 June 2014

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
18th Meeting 2014, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Joan McAlpine (South Scotland) (SNP)
*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Rt Hon Danny Alexander MP (Chief Secretary to the Treasury)
Rt Hon Alistair Carmichael MP (Secretary of State for Scotland)
Stephen Farrington (UK Government)
Dr Gary Gillespie (Scottish Government)
Stewart Maxwell (West Scotland) (SNP) (Committee Substitute)
Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities)
John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 11 June 2014

[The Convener *opened the meeting at 09:30*]

Interests

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 18th meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses, who I will introduce in a second, and our visitors to the public gallery. I remind everyone to turn off, or at least to turn to silent, all mobile phones and other electronic devices, so that they do not interfere with the sound equipment.

We have received apologies from Dennis Robertson, who must be elsewhere this morning. We are joined by committee substitute, Stewart Maxwell. Mr Maxwell, as this is your first attendance at the committee, I must ask whether you have any interests relevant to the committee's work to declare.

Stewart Maxwell (West Scotland) (SNP): I am not aware of any relevant interests that I need to declare. However, I point members and others to my entry in the register of members' interests.

The Convener: Thank you very much.

Scotland's Economic Future Post-2014

The Convener: We have three agenda items relating to our inquiry into Scotland's economic future post-2014. This is the last day on which we will take evidence. On our first panel, I welcome back to the committee the Rt Hon Danny Alexander MP, Chief Secretary to the Treasury, who is joined by the Rt Hon Alistair Carmichael MP, the Secretary of State for Scotland. I think that this is the first time that you have been to this committee, Mr Carmichael.

Rt Hon Alistair Carmichael MP (Secretary of State for Scotland): To this committee, yes.

The Convener: Mr Carmichael and Mr Alexander are joined by Stephen Farrington, who is the deputy director of the economics group at HM Treasury. The last time that you were here, Mr Farrington, you were tipped to be the next permanent secretary at the Treasury. You can update us on how your career path is going.

Finally, we have Chris Flatt, who is the deputy director of constitution and communications at the Scotland Office.

We have around 90 minutes for the session. I remind members to keep their questions short and to the point. It would also be very helpful if answers were as short and focused as possible, to allow us to get through the topics in the time available.

I am not sure whether committee members will want to direct their questions to a particular individual, so I ask that panel members agree among themselves who will answer any questions asked.

I will start off. My question is for Mr Alexander; Mr Carmichael will perhaps then want to come in. Why would the Scottish economy benefit from a no vote in the September referendum? I ask that you answer that question in around two to three minutes, if you can.

Rt Hon Danny Alexander MP (Chief Secretary to the Treasury): Thank you very much for inviting me back to the committee, Mr Chairman—it feels as if it has been only days since I was here for the inquiry's opening session. It is a very good opportunity to hear the arguments and have the debate. I am here in my capacity as Chief Secretary to the Treasury but also as a member of Parliament for Inverness, Nairn, Badenoch and Strathspey, so I am someone who has a number of direct interests in the matters under discussion.

I will make just two or three points in answer to your opening question. First, Scotland's economic performance is very strong as part of the United

Kingdom. Working together within the UK creates economic opportunities and more jobs in Scotland in a range of sectors, such as, in particular, energy, financial services and defence. Some of the evidence that we have produced as part of the Scotland analysis programme shows, from a macroeconomic perspective, the damaging effect that erecting an international border has on trade flows and therefore on job creation.

Just a couple of weeks ago, I published the most recent paper from the Scotland analysis programme, “Scotland analysis: Fiscal policy and sustainability”, which I am sure the committee has had a chance to look at. The paper looks in the round at all the fiscal issues that would affect an independent Scotland. It looks at the starting point of the much larger budget deficit that Scotland would expect to have in 2016-17 compared with the rest of the UK, the rapid decline in oil revenues, the extra costs of an ageing population and the higher bond yields that could expect to be paid under independence, according to a lot of independent evidence. The paper brings all that together to make it clear that there is a UK dividend to every single Scot of around £1,400 a year in terms of lower taxes and sustained public spending as a result of being part of the United Kingdom.

Over the past few weeks, I have been struck by how much each of those building blocks is supported by independent evidence. For example, on the starting deficit and the divergence between oil revenues and demographic costs, the Institute for Fiscal Studies recently published its own report that very much bears out the analysis in our paper.

The Office for Budget Responsibility forecasts a decline in oil revenues. It is quite interesting that, on the same day that I published the fiscal policy and sustainability paper, the Scottish Government brought out a new oil and gas forecast, which is just as hyperoveroptimistic as its previous forecasts and leaves a massive hole in the financial case for independence.

We have also heard other independent commentators from the financial sector and elsewhere supporting the argument that currency union simply would not happen or would not work. There may be many other arguments around whether Scotland should become independent, but on the economic argument, which is the subject of the committee’s inquiry, all the independent evidence that has emerged in recent weeks supports the idea that Scotland is economically stronger and more successful—it has the best of both worlds, if you like—as part of the United Kingdom.

The Convener: Thank you very much.

Mr Carmichael, do you want to add anything at this stage?

Alistair Carmichael: I will be very brief, Mr Chairman, because the Chief Secretary has given you a fairly concise and very clear summary of the case, from which I would not depart in any way, shape or form. However, it might just benefit the committee to pause for a moment to reflect on the state of Scotland’s economy today as part of the United Kingdom.

Some six minutes ago, the latest employment figures were released. They show that, in Scotland over the past quarter, employment increased by 16,000 and unemployment fell by 7,000, and that, over the month of May, the number of people claiming jobseekers allowance fell by 2,300. The unemployment rate in Scotland has fallen to 6.6 per cent, which is the same as the rate for the UK as a whole.

People returning to work find that they have been helped by the increases that the UK Government has made to the personal allowance, which have taken 242,000 Scots out of paying income tax altogether. In addition, one million Scottish pensioners have benefited from having their pensions protected by the Government’s triple lock on the state pension.

Gross domestic product has risen for seven consecutive quarters. Although in the last quarter of 2013 GDP growth in Scotland was only 0.2 per cent compared with 0.7 per cent for the rest of the UK, it is worth pausing to reflect on why that should be. There is a fairly broad consensus that that was a result of the temporary closure of the Grangemouth plant in October 2013. I suggest to the committee that that is a reminder of why it is better to be part of a larger economy where we spread the risks and share the rewards. I also remind the committee that, in tackling that real threat to the Scottish economy, I was delighted and privileged to work very closely with John Swinney. The fact that Scotland’s two Governments worked together in that way was ultimately to Scotland’s benefit.

I am not going to pretend that everything in the garden is rosy. We have had to take some tough decisions and we are not clear of the woods yet. However, there is room for optimism, particularly in relation to the Scottish economy. The critical point for the committee’s inquiry that must be emphasised is that what has been achieved has happened not despite Scotland being part of the United Kingdom, but precisely because Scotland is part of the United Kingdom.

The Convener: Thank you very much for those opening statements. I make a small process point: not that I am precious about this in any way but, technically, I am the convener of the committee, not the chairman.

Danny Alexander: We apologise for the offence caused.

The Convener: I will follow up on a point that you touched on, Mr Alexander. The oil and gas sector has been of substantial interest to the committee. In fact, we had a session at the University of Aberdeen with the sector where we heard about the significance of oil and gas to the Scottish economy.

We have also heard a lot about the impact of oil and gas on the public finances in Scotland and the contribution that the tax revenues make to our fiscal position. You said that the Scottish Government has published updated figures for its projected oil and gas revenues. What is the UK Government's analysis of the future prospects of the oil and gas sector?

Danny Alexander: Your first point is an important one. The oil and gas sector is hugely important to the Scottish and UK economies. However, there is no doubt that, in recent years, we have seen the tax revenues from the oil and gas sector decline, and that is expected to continue. We have a shared interest in maximising the economic recovery in the North Sea and in ensuring that we eke out every last drop of oil and gas from the UK continental shelf. That is why the coalition Government has taken decisions such as the decision for the first time to be clear with oil companies about decommissioning relief for North Sea equipment, about field allowances for new fields and so on. All those things are, as it were, sacrificing tax revenue in order to maximise economic activity in the North Sea, and I suspect that that trend will need to continue because we have a wider economic interest in ensuring that it lasts as long as possible.

There are two points to make about how that sits within the context of the debate about independence. The Scottish Government's forecasts—the figures that it publishes for how it sees the public finances in an independent Scotland—rely on North Sea revenues being consistently more than double the forecasts that have been made by the independent Office for Budget Responsibility, despite the fact that the independent Office for Budget Responsibility's forecasts since 2010 have themselves overestimated UK oil revenues by 20 per cent on average. When the Scottish Government published its most recent "Oil and Gas Analytical Bulletin", which was on the same day that I launched our paper on fiscal policy, it excluded any reference to what had happened in 2012-13 and 2013-14, whereas previous forecasts in previous bulletins had looked back at what had actually happened. It did not reveal how overoptimistic the Scottish Government's previous forecasts had been compared to the taxes that were actually received. Even the most cautious Scottish Government forecasts, from March 2013, were around £5 billion too high for those two years. That means that all the Scottish Government's projections for independence are wrong because they are based on massively overoptimistic projections that are overoptimistic even in comparison to forecasts that themselves have been shown to be on the optimistic side.

There is, therefore, a widening chasm between the revenues on the one side and the costs on the other, which is one of the fundamental building blocks of the argument that there is a substantial UK dividend. Those fluctuations in oil revenues are absorbed in the pooling and sharing of resources that we have in a wider United Kingdom. Because of that much more worrying and difficult fiscal position under independence, any promises that the Scottish National Party seeks to make to the oil and gas sector about the stability of future revenues must be taken with a pinch of salt. If Scotland was independent, the Scottish Government would be faced with a pretty serious decision either to cut public expenditure substantially or to put up taxes. Therefore, promises that it would not put up taxes have to be taken with a big pinch of salt.

The Convener: A couple of members want to ask supplementary questions. Before they do so, I will follow up a point that you have just made. I am sure that you are familiar with the argument that the SNP would put forward, which is that there has been substantial investment in the North Sea over the past couple of years from which we will all reap the benefits in the future. I presume that you believe that that investment is already reflected in the projections that have been produced.

Danny Alexander: I very much welcome the investment that we have seen, which has come largely on the back of decisions that the UK coalition Government has made in the past two or three years, particularly on decommissioning relief. There have also been major investments because of the new field allowances that we have announced. We had an important review by Sir Ian Wood, following which we put in place a new regulatory regime for the UK continental shelf. All those things have given a sense of stability and certainty.

09:45

However, the North Sea is shifting from being a tax asset. It is declining as a tax asset because the policies that we have to put in place to ensure that we maximise the North Sea's role as an economic asset—which I hope the whole committee wants to see—mean that we simply cannot expect to get tax revenues that are anything like those that we have seen in the past or, indeed, anything like the Scottish Government's forecasts. With tax revenues at those levels and tax rates at the levels that lie behind those forecasts, we simply would not get the investment that we need.

Field allowances are, in effect, a very substantial tax break to enable and incentivise new investment. I am delighted that some multibillion pound fields are being opened up off the back of those allowances. Likewise, the multibillion pound cost of decommissioning relief would become much harder to bear if it was spread across the much smaller population of Scotland, under independence, than the deep pockets and shared resources of the United Kingdom.

Mike MacKenzie (Highlands and Islands) (SNP): I am glad that Mr Alexander brought up the OBR projections. Does he agree that the OBR has not really done all that well in a number of its projections? Can he explain to me why the OBR predicts that oil prices will flatline from 2016-17 at about $99 a barrel, when the Department of Energy and Climate Change figures suggest that oil prices will continue upwards? DECC is talking about approximately $132 a barrel at that point, with a continuing rise after that. How can there be such a disparity between the figures from the Government's own agency—DECC—and those from the OBR?

The OBR again takes the most pessimistic outlook when it comes to production. Oil & Gas UK suggests a 14 per cent increase over that timescale, yet the OBR again suggests that production will remain low.

Surely it is taxing the imagination to suggest, as the OBR does, that although we are seeing record investment now—investment that will continue over the next several years—all those investors who are making those crucial investment decisions are doing so on the basis that production is going to decline and prices are going to flatline. Surely it is stretching credulity to make that suggestion.

Danny Alexander: I think that we have just heard the first of many new tax proposals from the SNP under independence—a tax on the imagination. However, the questions are serious ones.

The OBR was created precisely so that we would have an independent, objective forecaster. It is independent of Government, it is not influenced by Government, it looks at all the evidence from around the world and it forms its own best judgment about the forecasts that it puts forward. Although an economic forecast is, of course, still a forecast—so things change—the OBR's forecasts of oil revenues over the past two or three years have been significantly higher than the actual amount of revenue received from the North Sea. I urge the committee to bear that in mind.

If you want to get into the reasons for the OBR's forecasts, you will need to ask the OBR—it is independent of Government, so it would need to explain to you for itself precisely how it has built up its forecasts. The whole point is to have an independent economic forecasting agency. I think that under the previous regime, politicians were often able to fix the forecast to suit their objectives, whereas now—

Mike MacKenzie: Excuse me—

Danny Alexander: No, let me finish answering you, because there were about five questions in there.

Now we have an objective, independent forecaster, and recent evidence has shown that its forecasts have been higher than the amount of revenue actually extracted. That is why I think that it is highly irresponsible of the Scottish Government to treat the OBR forecasts as the lower band and to use much higher and more optimistic forecasts.

You asked about investment. As I said, I warmly welcome the investment. Within the Government, I have been taking decisions that are precisely aimed at increasing investment in the North Sea. However, as I explained, many of those investments are off the back of additional tax allowances, which, in and of themselves, mean that we do not get as much revenue from those investments as we might have got for investments of a similar financial scale decades ago. That is because the places that oil companies are now exploring and in which they are innovating are the most difficult. West of Shetland is much more costly to invest in than some of the places that were invested in earlier. The ultra high pressure, high temperature investments that are now coming forward thanks to the new cluster field allowance that we announced in the budget are inaccessible and are technically difficult reserves to get to. Again, they are coming forward only because of tax allowances, and the very nature of a tax allowance means that we get less tax than we would get if the allowance did not exist. However, I think that taking a hit on the tax side in order to enable the investment to go forward is the right fiscal decision.

The Convener: Chic Brodie has a brief supplementary question.

Chic Brodie (South Scotland) (SNP): Good morning. On the OBR forecasts, you say that the OBR is independent of Government, but of course it is not. As Alistair Darling said not that long ago, it is a wing of the Tory party. In fact, its first chairman, Sir Alan Budd, was an adviser to Mrs Thatcher.

In talking about its processes, the OBR says,

"We consider these methodologies work-in-progress",

so the forecasts are not fully reputable, are they? Another thing about its forecasting is that it states:

"Our oil price forecast moves in line with the average of the futures curve over"—

for the most recent one—

"the ten working days to 27 February 2014".

The OBR buys its forecasts from Bloomberg. Who has looked at the forecasts and the futures in the past month?

Danny Alexander: First, the attack on the OBR is characteristic of an approach to the debate by SNP politicians—

Chic Brodie: No attacks—facts.

Danny Alexander: They seek to besmirch the reputation of people who speak on the other side of the debate. I have seen the report on the front page of *The Daily Telegraph* this morning about the most despicable attack on an individual, and I hope that an explanation for that behaviour will be forthcoming from the Scottish Government.

Trying to besmirch the independent Office for Budget Responsibility, which is completely independent of Government and is not a party-political organisation in any way, shape or form, lowers the tone of the debate, if I may say so, Mr Brodie. I am sorry to have to say that to a former party colleague, but it is—

Chic Brodie: You have alluded to that before, Mr Alexander. Can I just put that to rest? As I have said, some people choose to leave their party because of their principles. Some choose to leave their principles because of their party.

Danny Alexander: Well, your reasons are your own. I was trying to make a friendly point rather than an unfriendly one.

The OBR forecasts are based on the assessment of the budget responsibility committee, which is a combination of three economists of outstanding independent reputation. They look at all the evidence that comes in, on the basis of the technical assessment by their own analysts, and they come up with their forecast. If you want to question the basis of the OBR's forecasts, I suggest that you put those questions to the OBR.

Chic Brodie: The OBR is saying it!

The Convener: Hold on, Mr Brodie. Please do not interrupt.

Danny Alexander: I think that I have finished, convener.

The Convener: Okay—thank you. Mr Maxwell has a supplementary question. Please be very brief.

Stewart Maxwell: You keep saying that we should ask the OBR, but you rely on the OBR figures all the time. You have already spent the morning constantly talking about the OBR. Can you give us an OBR forecast that actually proved to be correct?

Danny Alexander: The OBR has published detailed assessments of its own, which look precisely at where the forecasts have been changed.

Stewart Maxwell: I am just asking you to name one that has been correct.

Danny Alexander: The OBR's forecasts for employment, for example, have been pretty much bang on.

Stewart Maxwell: I say with all due respect that we are talking about oil and gas.

Danny Alexander: You asked me for any OBR forecast that has been accurate.

Stewart Maxwell: The question is about oil and gas, Mr Alexander. Name an oil and gas forecast by the OBR that has been correct.

Danny Alexander: As I have said, in recent years, the OBR's forecasts have been about 20 per cent above the actual revenues—

Stewart Maxwell: So none of them has been correct.

Danny Alexander: —that have been received.

Stewart Maxwell: The answer is none, is it not?

Danny Alexander: That should lead anybody who looks objectively at the economic case for independence to cast serious doubt on the fiscal projections that the Scottish Government has advanced. The Scottish Government did not say, "Let's look at the OBR forecasts. They've been 20 per cent overoptimistic. Let's take a cautious projection so that we can offer a secure forecast." It said, "Let's look at the OBR forecasts, which have proved to be a wee bit higher than the actual revenue received. Let's double them. Let's think of a number and double it and then say that's what'll happen in an independent Scotland." That is total pie in the sky.

Stewart Maxwell: So not one single one—

The Convener: Mr Maxwell, you have had your supplementary. We will move on.

Alistair Carmichael: It is occasionally the business of Government to prove forecasters wrong. If we get forecasts that highlight a problem, the Government should take action to deliver a better outcome than is forecast. To try to undermine a forecaster's credibility merely by pointing to a different outcome rather misrepresents and misunderstands the purpose of forecasting.

Stewart Maxwell: You—

The Convener: Thank you, Mr Maxwell. We need to move on. I call Mr Biagi.

Marco Biagi (Edinburgh Central) (SNP): Mr Alexander, in the event of a no vote, will the Barnett formula be set in stone?

Danny Alexander: As I said before, the Government is not questioning or challenging the Barnett formula. As far as I am aware, there are commitments to the formula from all political parties. The main changes that have been proposed are about further devolution of tax-raising powers, which I strongly support.

Every time we devolve a tax-raising power, we have to have ways of adjusting the block grant. My colleague David Gauke is at the Finance Committee, almost in parallel with this meeting, talking about precisely that question. That is a consequence of further devolution of tax-raising powers, but we were clear in the coalition agreement that no changes are forecast or happening. I am not aware of anyone who proposes to get rid of the Barnett formula in the next Parliament or beyond, except those who argue for independence because, of course, if Scotland became independent, the formula—

Marco Biagi: I have to say that that is not strictly accurate. You said that the current coalition agreement rules out change to the Barnett formula, but the agreement states:

> "We recognise the concerns expressed by the Holtham Commission on the system of devolution funding. However, at this time, the priority must be to reduce the deficit and therefore any change to the system must await the stabilisation of the public finances."

That hardly rules it out for all time to come.

Danny Alexander: As the committee knows, the Welsh Assembly Government established the Holtham commission to consider financing issues in Wales. The commission raised two sets of concerns.

Marco Biagi: The issue is not so much the Holtham commission as the coalition's response to it. The coalition agreement says that you view the commission positively.

Danny Alexander: It is rather important to explain the context. The Holtham commission considered Wales specifically. A concern has been expressed in Wales about the convergence of funding levels per head between Wales and England. That had been occurring up to 2009 and has not been occurring for a while. The Holtham commission's concerns about convergence could be considered, but that is in the context of the proposal—

Marco Biagi: So the Barnett formula could be considered under the Holtham recommendations.

Danny Alexander: No. The idea is to consider convergence in the context of the tax powers that are proposed for devolution to the Welsh Government. That is not about changing the Barnett formula in any way; it is about considering the Welsh Government's overall financial position, including tax devolution.

As you know, the recent Silk commission recommended the devolution of income tax powers and borrowing powers to Wales, although the income tax powers would be subject to a referendum in Wales. If the Welsh voted in a referendum for the devolution of income tax powers, that would need to be taken into account.

10:00

Marco Biagi: It is important that there is clarity about the consequences when such decisions are taken, whether that is in the referendum on independence or that in Wales or whether that relates to the passage of the Scotland Act 2012. The command paper that accompanied what became the 2012 act set out a system to adjust the block grant. Is it the case that your colleague is at the Finance Committee outlining that the UK Government proposes a different system, which would include a change to the formula for generating Barnett consequentials? If so, has that been agreed with the Scottish Government, or is there no agreement on the proposal?

Danny Alexander: I do not think that it is right to say that a particular method for adjusting the block grant was set out in the command paper. It is probably best if my colleague David Gauke MP answers such questions at the Finance Committee, given that the session there is on such topics.

There is an on-going discussion—

Marco Biagi: I have a quote from the command paper that sets out exactly what the formula was.

Danny Alexander: I was about to say that there is an on-going discussion between the UK and Scottish Governments about the fairest way of adjusting the block grant for the devolution of income tax powers. That is on the basis that we want to have a block grant adjustment system that does not of itself cause an unfair gain or loss to

Scotland or the rest of the United Kingdom. The purpose is to ensure that, with income tax devolution in particular, which is the subject under discussion, but also in other areas—

Marco Biagi: The fundamental issue is that, in 2012, the Scottish Parliament granted legislative consent for the formula in the command paper, but there has been a departure from that agreement. Constitutionally, there is nothing to stop the UK Government going ahead with the approach that you propose, because Westminster remains the sovereign body.

Danny Alexander: There has been no departure from any agreement. A discussion is going on about how to technically go about ensuring that the block grant adjustment system is carried out fairly, with no gain or loss to either Government as a consequence of the adjustment.

Marco Biagi: The command paper says:

> "there will be no need for subsequent adjustments to the block grant to compensate for changes to these taxes after their devolution."

The "Scotland analysis: Fiscal policy and sustainability" report proposes on-going adjustments to the Barnett formula as a result of those taxes. It strikes me that it is hard to reconcile those two positions.

Danny Alexander: Mr Convener, I do not have the command paper in front of me, but I think that what is being offered is a misleading interpretation of what was said at the time. I am sure that my colleague David Gauke will answer those questions in detail at the other committee.

The Convener: Okay.

Marco Biagi: Can I have one last question, convener?

The Convener: One last question.

Marco Biagi: If we leave the intricacies of the 2012 act aside, you say that no party proposes to make any changes to the block grant adjustment, but recommendation 26 from the Campbell commission is:

> "The UK should move to an independent, transparent, needs-based formula to serve all parts of the UK well".

Paragraph 131 of the commission's report says:

> "The Liberal Democrats have long believed that the Barnett Formula should be replaced by a genuine needs-based assessment."

I believe that you chaired the group that wrote the 2010 Liberal Democrat manifesto.

Danny Alexander: I did.

Marco Biagi: That manifesto also expressed a desire to move away from the Barnett formula. How can you square those two positions?

Danny Alexander: Having spent a bit of time in the Treasury looking at and operating the Barnett formula, I would say that an adjustment that offers gains or losses to Scotland or the rest of the UK is simply not practical or on the table. We made clear in the coalition agreement our view on that.

The discussion at the moment is about devolution of tax powers. As I said, having seen the Barnett formula in operation and been responsible for it, I think that it serves well the interests of Scotland and the rest of the UK. What is more, as the Campbell commission says, if there is substantial further devolution of tax-raising powers—that is what I and my party want—significant adjustments will have to be made to account for the revenue that is raised directly rather than allocated through a block grant. That process of adjustment for revenue-raising powers would need to take place.

Richard Baker (North East Scotland) (Lab): My first point is for Danny Alexander and reflects his discussion with Mike MacKenzie on oil and gas issues. I am a member for North East Scotland so, as you can imagine, I am particularly concerned about employment in the oil and gas industry in the longer term. I want to understand your position, which I believe is that, as the North Sea is a mature basin and the production costs are rising, whichever Government is in power in whatever context will need to decrease its tax take to ensure that the industry has a longer-term future and will need to focus on preserving employment rather than maintaining tax revenues in the longer term.

Danny Alexander: That is exactly right and is precisely what is happening. To maximise the economic return from the UK continental shelf, we have made a number of decisions. Through decommissioning relief, we have been handing back tax revenue to the industry to help to meet the costs of decommissioning through field allowances, and we have been sacrificing tax revenue to enable investments to be made. Those are precisely the trade-offs that a responsible Government should be making—as Richard Baker says—to maintain jobs and investment in north-east Scotland and other parts of Scotland that benefit from the industry.

Richard Baker: My next question is on forecasts, which have been discussed. I do not think that I have ever seen a correct forecast of oil and gas prices and revenues from anyone but, on a broader point, a lot of forecasts are being made. I would like your view on the forecast that the Scottish Government makes in "Outlook for Scotland's Public Finances and the Opportunities of Independence", which was released at the same time as you published your document a couple of weeks ago. That forecast makes substantial assumptions about economic growth and growth in productivity. How robust are the Scottish Government's forecasts for the economy post-separation?

Danny Alexander: They are not robust at all. In seeking to understand the issues, we should bear in mind some of the consequences of independence—particularly the border effect, in which the creation of a new border results in a substantial diminution of trade. We should also consider the disruption that a different currency system would cause. All those things would undermine trade, investment and growth. Although not exclusively, the traded sectors tend to be the more productive ones, so a productivity hit would be taken there.

The Scottish Government's forecasts are based on pretty heroic assumptions about growth and productivity that go way above and beyond anything that has been achieved in similar regimes. To make the sums add up, consistent growth of 1 percentage point above UK growth would be needed every year for about 40 years, which is totally unrealistic.

In any set of circumstances for which people are putting forward costings and making a reasoned economic case, it is preferable to be cautious in making assumptions. If people are then surprised on the upside, that is welcome. Coming up with the most optimistic set of numbers that can possibly be imagined on the back of a fag packet and saying that that is the central assumption for the economic projections seems rather misleading.

Richard Baker: I will finish with a question for Danny Alexander and Alistair Carmichael. A range of assumptions is out there. The Scottish National Party has attacked the OBR's assessments, but we have also had assessments not only from the UK Government but from the Institute for Fiscal Studies about the economic challenges in a separate Scotland. What is your view of the range of assessments that have been made for the Scottish economy if Scotland were to become independent after September?

Alistair Carmichael: I will take a slightly different tack on that, which is prompted by the fact that I know that Richard Baker represents North East Scotland. He will know, as most members probably do, that I practised as a solicitor in Aberdeen and Aberdeenshire before I was elected. I was recently back there, when I talked to people who had previously been clients. One of them is a fairly significant commercial property developer in the north-east. I will talk about not how Governments see forecasts but how fund managers see them.

That commercial property developer told me that he is finding it very difficult to get financing for commercial property development in north-east Scotland, which is one of the best-performing parts of the Scottish economy, because of concerns about the possibility of a yes vote in September. Members will know how commercial property development works. The developer develops the property and sells it on, which is where the fund managers come in. Developers need some certainty that they will have that on-sale in order to get finance for the development in the first place.

The property developer told me that the level of uncertainty is making it difficult for developers to access finance. However, I am happy to do what I can to beat the drum for commercial property developers in the north-east and in any other part of Scotland. I will also work with the committee and with the Scottish Government if necessary.

I thought that that was an illuminating illustration of who looks at forecasts and what their meaning is. I emphasise that the offer of co-operation with the Scottish Government, which is bound to be concerned about this, and with any member of the Scottish Parliament, is absolutely bona fide.

Danny Alexander: I will add two brief points. Another feature of the Scottish Government's forecasts that may interest the committee is that, despite all the heroic assumptions about faster growth, rising productivity and so on, the Scottish Government assumes in order to make the numbers add up that none of the benefit of those things will feed through into higher public spending levels. In other words, the Scottish Government assumes that the share of the economy that the state spends would fall dramatically in Scotland over the period of its fiscal forecast, which backfills the black hole, if you like. The committee might want to look at that further.

We can look at what independent organisations have said about the forecasts. *The Economist* looked at our report and others and stated:

> "Mr Alexander's figure is the higher of the two, but also the more credible."

A report from the independent Institute for Fiscal Studies stated that

> "the public finance challenges facing an independent Scotland would appear to face more substantial challenges than the UK. This largely reflects the weaker initial position of Scotland's public finances and the likely long-run decline in revenues from oil and gas production, which will have a more significant effect on Scotland's fiscal position than that of the UK as a whole. This means that Scotland would likely need to implement further tax increases and/or spending cuts after 2016-17 to achieve a sustainable fiscal position, above and beyond those required by the UK."

Alison Johnstone (Lothian) (Green): Good morning. In your opening statements, you spoke about how employment figures are improving. However, a third of the 13 million people who are in poverty in the UK are from working families, and the Government's measures are not having the impact that they should because of low wages and the increase in part-time employment. The fact is that the headline employment figures do not tell us the whole story. I would be interested to learn what the UK Government intends to do about that under the current arrangements.

Mr Carmichael spoke about sharing the rewards and spreading the risks, but is it not the case that Scotland will share increased energy prices as a result of the UK Government's determination to invest in Hinkley Point? Experts in energy here in Scotland have pointed out that energy bills in an independent Scotland would decrease, whereas we are currently going to be paying more for the next 30 years.

I would be grateful for your comments on those issues.

10:15

Alistair Carmichael: You are absolutely right that there is an enormous job of work to be done on poverty in families and child poverty, but let us not ignore the fact that that work is being done and that we are seeing remarkable progress. The number of children who are living in poverty is on a downward curve. Our 2020 target is very challenging—there is no doubt about that—but it is incumbent on us all to keep the Government's feet to the fire in relation to that.

On low wages, as I mentioned, next year the personal tax allowance will rise to £10,500. That direction of travel has been pretty universally welcomed and it has been very successful in helping people on low incomes, in particular. I hope that, in the next session of Parliament, we will be able to go beyond that. At the next election, my party will want to promote that as a tool to take us to a point at which anyone in a full-time job on the minimum wage would not pay income tax. The manifesto is still to be written, but that is very much the direction in which we want to go. The minimum wage is being increased to £6.50 an hour, which will also help those who are on low incomes.

On the question of energy prices, the overall energy policy is significant. We have, I hope, a shared commitment to increasing the amount of our energy that comes from renewable resources. To be candid, we all know that that will require a fair level of public subsidy for quite some time to come. The subsidy is spread out over the whole UK market of 63 million people rather than just the 5 million people that we have in Scotland. When we launched our energy paper, we outlined the full range of different possibilities for the extra costs that energy bill payers in Scotland would face if similar levels of subsidy for renewables were maintained. From memory, those went from around £30 a year to £180 a year.

Alison Johnstone: Is it not the case that tax breaks are being offered to those who want to invest in hydraulic fracturing and other unconventional gas extraction? Because we are being hamstrung, we cannot invest in renewables in the way that we want to. The industry has massive potential in Scotland. Far too many young people face the option of low-paid employment, and we are being held back by the UK Government's insistence in investing in outdated and outmoded technologies.

On poverty and your wish to improve the situation for the many, if things are so good, why has Oxfam produced its report, "Below the Breadline: The relentless rise of food poverty in Britain"? Why are increased numbers of people relying on food banks and other meal services? I am just not convinced that the changes that you are promoting are happening on the ground; they are certainly not happening in my region.

Alistair Carmichael: I can only point you in the direction of the figures that show that the number of children who are living in relative poverty is on a downward curve. That is the progress that we have made to date. I have already told you that there is still an enormous amount to be done on that. I am not going to hide from the fact that the challenge is enormous.

We know that the best way to get people out of poverty is to get them into work. In order to get children, in particular, out of poverty, we have a role to play in getting parents into work and, in that respect, the extra childcare help that the UK Government is providing is very significant. In addition, as part of the universal credit change, around 80 per cent of childcare costs will be met for people on universal credit.

Danny Alexander: I will add a couple of brief points. First, on the framework for investment in renewable energy, it is precisely because of the decisions that the UK Government took in respect of the Energy Bill, strike prices and so on that substantial offshore wind investments are being made in Scotland. I celebrate that, and I am sure that every member of the committee does, too. That will create jobs, particularly in the Highlands and Islands, although I am sure that jobs will be created in other parts of Scotland as well.

That is happening because we have a system that incentivises investment in renewable energy—considerably more is paid per unit of electricity for renewable energy than would be paid for nuclear power or other forms of energy.

Those costs are spread across 30 million UK households, but if they had to be met by an independent Scotland, they would be spread across a significantly lower number of households. That is why our analysis paper on energy gave a spread of between £38 and £189, I think, for the likely increase in energy bills under independence.

I completely endorse everything that Alistair Carmichael has said on child poverty. In addition, the fiscal arithmetic is important. I think that we have demonstrated, in our paper and in the discussion that we have just had about oil revenues, that an independent Scotland would be in the position of having to make significant reductions in public expenditure or of having to raise taxes significantly, simply to keep expenditure as it is at the moment. In that case, the levers to tackle what we all agree is a huge social challenge would be much less available under independence than they are with the UK dividend that we have at the moment.

Alison Johnstone: The Joseph Rowntree Foundation has reported on the fact that we will lose all the increases. We have moved some children out of poverty, but the foundation is very concerned that the progress that we have made under devolution is being undermined by the welfare reforms that the UK Government has put in place, which impact significantly on women and children.

You spoke about spreading the costs in relation to energy prices but, if I may, I would like to move on to the issue of pensions.

The Convener: This is your last question.

Alison Johnstone: We constantly hear that pensions will be safer if Scotland remains part of the larger UK, but the fact is that pensions are a big issue across the UK. Whether Scotland becomes independent or remains part of the UK, we need a culture change, and it is the same sort of culture change that we need in banking and other areas. The Institute of Chartered Accountants of Scotland has reported a significant underfunding issue across the UK. Do you not think that it would be better for us to grasp the problem now, regardless of whether Scotland becomes independent or remains part of the UK, and to start funding our pensions properly and fully? The previous UK Government took a significant windfall out of pensions.

Alistair Carmichael: Indeed. I was highly critical of that Government at the time, and I remain so today. I am prepared to defend a lot of things, but I am afraid that that does not stretch to defending the actions of previous Labour Governments.

Richard Baker: I will do that.

Alistair Carmichael: Yes—others might have greater enthusiasm for doing that than I do.

On the question of welfare reform and child poverty, nobody has a monopoly on wisdom or solutions. We are talking about complex and wide-ranging problems. On welfare reform, let us not forget that it is estimated that universal credit will take something like 300,000 children out of child poverty.

I will explain what I mean about nobody having a monopoly on wisdom. Let us consider what the UK Government is doing in England on the pupil premium. Control of education is obviously devolved to the Scottish Parliament, and rightly so, but there are some really interesting, exciting and innovative bits of work being done in relation to the pupil premium. That involves targeting money at children who are in the greatest need, and it is already making a real difference to the lives of those children.

The issue is not just about child poverty, because we know that poor children tend to grow up to be poor adults. The way to break that cycle is to improve their educational achievement. That is being done through the pupil premium. We will not see the full benefit or impact of that in the current session of Parliament or even by the end of the next one, but we will see it by the end of the following session. It is absolutely necessary to do that sort of long-term planning and thinking.

I return to my previous experience as a solicitor who worked in the criminal courts. I was picking up 16 and 17-year-old clients who, frankly, were beat before they got to primary school at the age of five. Those are difficult and very complex problems, but targeted intervention with those children at the earliest possible stage will turn their lives around. That is the sort of action that we are taking, and I will be more than happy to open the doors to share experience on that with any member of the Scottish Parliament or any member of the committee.

Alison Johnstone is right to be critical of some of the decisions that have been taken on pensions in the past. We have to struggle with the consequences of those decisions. I merely point members in the direction of the changing demographic, which highlights the scale of the challenge that Scotland would face. Currently, we have a slightly higher percentage of people who receive pensions as opposed to the working-age part of the population, and that is projected to grow in the decades to come. Earlier warnings about projections are pertinent here. That would be a challenge that an independent Scotland would have to meet, and I would argue that that challenge is best met across the whole of the United Kingdom.

The Convener: I am conscious that we are more than halfway through our time and quite a number of members still have to ask questions. It would therefore be very helpful if we had shorter questions and shorter answers.

I think that Joan McAlpine is—perhaps unusually—struggling to be heard. I do not want to sound unkind, Joan, but I hope that you will try your best.

Joan McAlpine (South Scotland) (SNP): I hope that you will bear with me, convener.

Two weeks ago, Mr Alexander, you brought out a briefing paper, which you described as a "comprehensive analysis", on the start-up costs of an independent Scotland. However, Professor Dunleavy of the London School of Economics, on whose figures that analysis was based, said that the figures were "bizarrely inaccurate" and "seriously misleading". Will you explain to the committee why you published inaccurate and misleading figures?

Danny Alexander: I hope that Joan McAlpine's voice gets better, but the sound system means that she can be heard perfectly clearly by everybody here.

The figures that I published, which are in the report that I mentioned earlier, are derived from work by Professor Young, who estimated that the set-up costs of a new state would likely be around 1 per cent of GDP. One per cent of GDP is £1.5 billion.

Other figures might help to illuminate the detail. For example, the Institute of Chartered Accountants of Scotland recently published its assessment that setting up a new tax system in an independent Scotland would on its own cost £750 million. In his secret memo to his Cabinet colleagues, Mr Swinney estimated that the cost of the tax system in an independent Scotland would be between £575 million and £625 million. Our Scotland analysis paper on welfare issues estimated that setting up the information technology to establish a new benefit and pension system in an independent Scotland would alone cost around £400 million. Just those two things together take us to nearly £1.2 billion, and that does not include all the other things that would need to be set up under independence.

Joan McAlpine: You mentioned Professor Young. He said that the £1.5 billion estimate was not his, but was extrapolated from the top of a range of estimates that was produced in an entirely separate work on Quebec. You are standing by figures from which Professor Young has already distanced himself.

Danny Alexander: Professor Young came up with the range of estimates of the cost as a share of GDP. We took the range of estimates and applied them to actual GDP. That bit of maths was based on his analysis as part of our analytical work. The simplest way to resolve the problem would be for the Scottish Government, which I understand has been doing a considerable amount of work on the question, to publish its own detailed analysis.

We saw the other day that a vast number of civil servants are now being deployed, somewhat presumptuously, to work out how to get a new state going in the event of a yes vote. However, the ICAS assessment of the tax system and the Department for Work and Pensions's assessment of the cost of the IT system alone for a new benefits system already take you to £1.15 billion. Therefore, the £1.5 billion figure would assume that everything else costs £350 million, which is less than the cost of the Scottish Parliament building.

Mr Swinney was asked 13 times about his assessment of the cost but he refused to answer, so the onus is on the Scottish Government to be straight with people in Scotland about what it thinks the actual costs of setting up a new state would be.

10:30

Joan McAlpine: Will you please answer my original question about Professor Dunleavy? Why did you use information that he has described as "inaccurate" and "misleading"? You did not answer that.

Danny Alexander: I did answer it. I explained that, in the paper that I published, the estimates that we used—the £1.5 billion figure that we have—

Joan McAlpine: No, you put out a press release using Professor Dunleavy's figures. The Chief Secretary to the Treasury, Sir Nicholas Macpherson, said that the Treasury had misbriefed on that paper.

Danny Alexander: He is not yet the Chief Secretary to the Treasury; he is the permanent secretary to the Treasury. He might have higher aspirations.

Joan McAlpine: I apologise, but the substantive point is that he said that the Treasury had misbriefed. Why did you misbrief?

Danny Alexander: As I have said, the figures in our paper are based on Professor Young's estimates. Professor Dunleavy's estimates were used to illustrate the costs of establishing new departments in a UK context.

It is also interesting to observe that only £4 of the £1,400 UK dividend—the money that each and every one of us in Scotland has as a consequence of being part of the United Kingdom—derives from the set-up costs. That is the only part of the analysis that has come under attack. I am happy to agree with SNP members that the number is at least £1,396. There is some reason to believe that the £1.5 billion figure is accurate or might even be an underestimate, given the ICAS and DWP estimates, but I find it extraordinary that the Scottish Government is trying to sell the people of Scotland the idea of creating a new state but is not willing to name the price until after the vote has taken place.

Joan McAlpine: I ask you one more time to explain why the Treasury misbriefed and why you published a misleading and inaccurate account of Professor Dunleavy's research.

Danny Alexander: As I have said, what we have published is what is in the Scotland analysis document, which has drawn on the work of Professor Young. Professor Dunleavy's figures were used—

Joan McAlpine: Professor Young has also distanced himself.

Danny Alexander: Professor Dunleavy's figures were used to illustrate the historical costs department by department. The substantive issue is the set-up costs for a new state. As far as I am concerned, the £1.5 billion is a reasonable estimate.

It is, to be frank, extraordinary that the Scottish Government has not been able to come up with any figures. In Mr Swinney's memo to his Cabinet colleagues, which was written, I think, two years ago, he said that the work was taking place. I saw the evidence that the Deputy First Minister gave to the Foreign Affairs Committee, in which she made it clear that substantial work on the costs was going on and would be published. The idea that that information will be concealed from the people of Scotland until after the referendum seems to me to illustrate precisely why the economic case for independence is not to be believed.

Alistair Carmichael: In fact, the undertaking that the Deputy First Minister gave to the Foreign Affairs Committee was not only to publish that work. I have a transcript of her evidence here, and she said:

> "we are doing a substantial piece of work on some of this just now. I am not going to get into all of the detail of this today because this is work that we will publish in due course in the lead-up to and in the White Paper, but suffice to say it covers not just running costs but it covers the issues around set-up."

On that timetable, the information appears to be a little overdue.

The Convener: Okay, we need to move on. Chic Brodie is next.

Chic Brodie: Good morning again. I think that we have just heard a very selective rewriting of recent history. I have three brief questions for Mr Carmichael and to avoid any intended obfuscation, a yes or no answer would be helpful.

Alistair Carmichael: Is the first question about when I stopped beating my wife?

Chic Brodie: I will leave personal matters to you, Mr Carmichael.

The campaign has claimed that people in Scotland would be £1,400 better off if they voted no. You then employed Engine Partners UK LLP, which is run by a director of Better Together, and paid the company £30,000 to produce a patronising message using Lego figures to depict Scots as people who spend all their time eating hot dogs, fish and chips, pies and so on. Did you agree with that campaign?

Alistair Carmichael: I do not believe that Engine Partners UK produced the BuzzFeed graphic, if that is what you are talking about.

Chic Brodie: I think that you will find that it did, but anyway, did you agree with that campaign?

Alistair Carmichael: I am sorry, but my understanding was that it was produced by people in the Cabinet Office. I might be wrong about that—I will concede that possibility.

Chic Brodie: Did you agree with the campaign?

Alistair Carmichael: I am sorry—did I agree—

Chic Brodie: —with the Lego campaign?

Alistair Carmichael: I am already on record as saying that the Lego campaign, the Lego BuzzFeed or whatever it is called—I am afraid that I am not quite up to speed with all the technological innovations—was intended as a humorous means of getting across a serious message. As the chief secretary has already outlined, the message was that, as part of the United Kingdom, every person in Scotland is £1,400 better off. I do not think that the campaign was the most successful exercise in humour, but it has been withdrawn.

Chic Brodie: I must remember to ask my grandchildren what serious message they are giving me the next time they play with Lego.

The UK Government spent £46,500 on a report on attitudes in Scotland towards independence, which one presumes includes the economics of independence. First, where is that taxpayer-funded report? Secondly, via research that we have obtained from the House of Commons library, we have discovered that since June 2013, the Government of which you are a part has spent £140,000 on that research. That makes £170,000 if we include the £30,000 that I mentioned earlier. Will you publish the polls that have been a consequence of that research—yes or no?

Alistair Carmichael: I am sorry—I do not recognise your £140,000 figure. The figure that you have got from the House of Commons library is obviously one that I have not been privy to. I am sorry, but I cannot comment on that.

The polling work to which you refer is routinely undertaken by the Government. We have not sought to publish it in any way. You know the rules as well as I do, Mr Brodie, on the publication of polling information: if you publish any of it, you publish all of it. We have published none of it, and we will continue to do so. That work was undertaken to inform Government policy.

Chic Brodie: So £170,000 of taxpayers' money was spent on unpublished polls.

Alistair Carmichael: You are suggesting that we spent £170,000—

Chic Brodie: Do you not think that you have a responsibility to the taxpayer? I will ask you again: will you publish the polls that are a consequence of spending £140,000, a figure which is contained in documents in the House of Commons library?

Alistair Carmichael: You are asking me to comment on figures that I have not seen. I am not going to comment on figures that I have not seen. I have already told you the position on polling.

Chic Brodie: Okay. Let us move on.

We have had lots of numbers today. Let us talk about democracy, as democrats. On the basis that, including MPs and lords, people in Scotland elect just 4.1 per cent of the UK Parliament, I want to share something with you, as a democrat:

"I do not like the word devolution as it has come to be called. It implies that power rests at Westminster, from which centre some"

powers

"may be ... devolved. I would rather begin by assuming that power should rest with the people who entrust it to their representatives to discharge the essential tasks of government. Once we accept that"

Scotland is a nation,

"we must accord"

it a Parliament which has

"all the normal powers of government".

Do you agree with that?

Alistair Carmichael: I share your lack of enthusiasm for the term "devolution".

Chic Brodie: Do you agree with my statement?

Alistair Carmichael: The term that my party has always preferred is "home rule". We would always see devolution as a step along the road towards home rule within a federal United Kingdom. People like to stick labels on others in this debate. I get labelled as a unionist, but I have always seen myself as a federalist, as doubtless did you at one point, Mr Brodie.

The point about sovereignty is a very interesting one. The constitutional convention proceeded throughout the 1990s on the basis of the view that sovereignty in Scotland is vested in the people, not on the classic, dicey definition that Parliament is, as a body, sovereign. I still hold to that view of sovereignty. That is why it is perfectly proper and legitimate that we should have a referendum in Scotland on what we see as our best constitutional future. As a Scot, I shall exercise my sovereignty to say that I would wish us to remain part of the United Kingdom.

Chic Brodie: The quote that I read out earlier states that "Once we accept" that Scotland is a nation, "then we must accord" it a Parliament that has

"all the normal powers of government".

That comes from a document called "A Personal Manifesto", which was written by the father of modern liberalism and your predecessor in Orkney and Shetland, Jo Grimond. Given the great work that he did, particularly in the patch that you currently represent, I would have thought that you might have agreed with that statement.

Alistair Carmichael: Surely you are not suggesting that Jo Grimond was ever in favour of independence.

Chic Brodie: I am quoting his statement from "A Personal Manifesto".

Alistair Carmichael: I believe that it was you who said earlier that you had just heard a rewriting of history. If you are trying to claim Jo Grimond as somebody who was in favour of independence, then in terms of rewriting history, I bow at the feet of the master.

Chic Brodie: That is perfectly acceptable, but I suggest that you go and buy a copy of "A Personal Manifesto".

Danny Alexander: Can I just add two brief points? First, the fundamental difference between liberalism and nationalism is that liberalism seeks to break down barriers between peoples but nationalism—in this case—seeks to build a new barrier. I think that the exchange that we have just heard illustrates that perfectly. Secondly, if you are going to quote statistics, I point out that Scotland has just under 10 per cent of the members of the House of Commons. The logic of your argument, Mr Brodie, would suggest that because Scotland has only 0.8 per cent of the members of the European Parliament, we should withdraw from the European Union.

I believe very strongly that we, as Scots, are stronger and more powerful, effective and prosperous as part of not only the United Kingdom but the European Union. The whole purpose is to share sovereignty for the wider benefit and to use that to our advantage as the people of Scotland.

Chic Brodie: Fortunately, I have had experience of both liberalism and nationalism, so I am happy for you to bow at the feet of the master, too.

The Convener: Okay. Perhaps we should move on.

Danny Alexander: If I ever encounter the master, I will do as Mr Brodie suggests.

Margaret McDougall (West Scotland) (Lab): Good morning, gentlemen. In his introductory remarks, the Rt Hon Alistair Carmichael mentioned triple-lock pensions.

Alistair Carmichael: Please call me Alistair.

Margaret McDougall: We hear from the Scottish National Party that it probably will not increase the retirement age. How feasible is that, and what would be its implications for an independent Scotland with an ageing population, to which you referred earlier?

Alistair Carmichael: There is what accountants and actuaries call the dependency ratio, which is the ratio of people who are in employment compared with those who are of retirement age. I think that at one point the Scottish Government tried to pretend that that position was better in Scotland than in the rest of the United Kingdom, but to do so it included children in the calculation. I do not think that most people would see children as being of working age.

The benefit of the triple lock is that it guarantees that the state pension will go up by the rate of inflation, by average earnings or by 2.5 per cent. That has delivered in the course of this Parliament the single largest increase ever in the state pension, and it is a very tangible benefit that has come to older people in Scotland as a result of the coalition’s policies. It was a deliberate decision, but not an easy one to take, because money that is spent on the state pension is money that is not available for people in the rest of the welfare system.

10:45

Danny Alexander: The specific facts are that not increasing the state pension age to 67 would, in Scotland, cost around £6 billion in extra pension costs between 2026-27 and 2035-36 and would result in around £9 billion of lost GDP over the same period. As well as the broader points that Alistair Carmichael has rightly made about the demographic challenges being more challenging in Scotland than in the rest of the UK, I point out that following through on such a policy would result in a precise financial loss that would have to be met by the public finances of an independent Scotland.

Margaret McDougall: What are the likely ways of funding that in an independent Scotland?

Danny Alexander: Either you put up taxes or you cut spending on other things.

Alistair Carmichael: The lesson that we have surely learned in the past 10 years is that you can only spend the money once.

Margaret McDougall: So, if we became an independent Scotland, would we face increases in taxation?

Alistair Carmichael: We would face some difficult choices. Danny Alexander has already explained at some length the fiscal position that Scotland would face from 2016-17 onwards. The truth of the matter is that, as part of the United Kingdom, we will still face challenges. The campaign that I am part of is called better together, not perfect together. There will always be challenges, but I would argue—and I hope that you might agree—that those challenges are best met by being part of a United Kingdom, albeit one that includes a strong Scottish Parliament to which more powers should be coming.

Margaret McDougall: But would an independent Scotland likely see greater increases in taxation?

Danny Alexander: The analysis paper sets out the scale of the UK dividend for purely illustrative purposes. If you are going to balance the books in an independent Scotland, you will need to increase all onshore tax revenues by 13 per cent from the start of independence in order to maintain levels of public spending rather than have cuts. For illustrative purposes, I note that that would be equivalent to having a basic rate of income tax of 28 per cent and a 26 per cent rate of VAT and increasing the main duties on alcohol, tobacco, fuel and vehicles by almost 40 per cent. Those are the sorts of things that you would have to do to fill the gap in the finances. By definition, part of the UK dividend is that we can have public expenditure on the services that we rely on and money to support them without having to make those sorts of decisions.

Mike MacKenzie: I am disappointed at the doublespeak that we heard earlier this morning about the Barnett formula. You seemed to be wavering all over the place. I am also interested to hear that you still accept responsibility for the outrageous exaggeration of two weeks ago about the start-up costs of independence. You have sold out on tuition fees. Why should anybody in Scotland believe anything that Liberal Democrats have to say on any of these matters?

Danny Alexander: We have delivered for Scotland a growing economy. We have cleared up much of the mess that was left to us by the previous Government, as Alistair Carmichael highlighted at the start of his presentation. There have been further substantial increases in employment in Scotland and across the whole of the UK, which shows that the plan for the economy—which would not be happening without the Liberal Democrats in Government—is working for Scotland.

We have delivered substantial cuts in income tax and we have overdelivered on our promise of an income tax personal allowance increase to £10,000, which is a tax cut worth £700 for every single Scot. We have delivered on our promises on investment in North Sea oil and gas and in renewable energy with the framework that my colleague Ed Davey has put in place. We have delivered on our promises of a triple lock for pensions, delivered by a Liberal Democrat pensions minister, Steve Webb. We have delivered on our promises in relation to the Calman commission on further devolution, and we have passed legislation on income tax devolution and other things that are coming. We will all be paying a Scottish rate of income tax from 2016 onwards, and I would like to see that go further.

Of course, as the minority party in a coalition Government, we cannot deliver 100 per cent of our manifesto, but I think that delivering about 70 per cent—as one study showed—is a good record, of which I am very proud.

I read out from our document—I am happy to do so again for the record, but for reasons of time I will not—examples from the huge variety of independent economic assessments that back up our claim. One of the most interesting features of the debate on the economics of independence that has taken place in the past few weeks is that we have not found a single economic commentator who has come out and backed the argument that Scotland would be substantially better off under independence.

There may be many other reasons to argue for independence, but the economic case does not stack up at all.

The Convener: That was an interesting exchange, but we are not holding an inquiry into the credibility or otherwise of the Liberal Democrat party.

Danny Alexander: I was asked the question, so I felt that I had to answer it, convener.

The Convener: I appreciate that. Perhaps one day we will have an inquiry on that subject, but today is not that day. Today, we are looking at Scotland's economic future, so perhaps Mike MacKenzie could ask a question that is relevant to that subject.

Mike MacKenzie: Thank you, but I am sure that you will agree with me, convener, that credibility is everything in these arguments.

I am mindful of the recent results of the European elections, and I am confident that an awful lot of people share my views, rather than those of the gentlemen in front of the committee.

Mr Alexander, when you last appeared before the committee—which was only minutes ago, according to your recollection—you offered to write to us and share the UK Government analysis, and the downside costs, of not continuing in a currency union with Scotland. You did indeed write to the committee, but you did not include any of the information that I asked for. Can I take from that the assumption that no such analysis has been done?

Danny Alexander: I thought that I had provided all the figures that you had asked for. At paragraph 7 of my letter, I answered precisely the question that I had been asked at committee. If the committee feels that my reply was inadequate and that there are further issues on which it would like me to write, I will happily examine the matter.

I felt that, by offering the figures on the transaction costs, which was the precise point that you had asked me about, I was fulfilling my commitment. I am sorry if you feel that I have not done so, and I will gladly look at the letter again.

Mike MacKenzie: Can you just remind me of the transaction costs for remaining UK businesses exporting to Scotland after independence if there is not a shared currency union?

Danny Alexander: I am just looking at my letter, convener—

Mike MacKenzie: I am not the convener, but surely you have those figures at your fingertips.

Danny Alexander: I do not have those facts at my fingertips.

Stephen Farrington (UK Government): The transaction costs would be £500 million for Scottish firms and £600 million for UK firms.

Mike MacKenzie: So you disagree with Professor Muscatelli, who said that those costs could be £2.5 billion.

Danny Alexander: I think that, in coming up with those figures, we used the same methodology that the Scottish Government had used. I have not read Professor Muscatelli's evidence, but if those are the figures that he gave, they are clearly different to the ones that we have offered.

The more substantive point is that, as the committee will know, if you are considering a currency union you need to consider issues that are much wider than transaction costs. If transaction costs were the only thing that mattered, it would be more in the interests of the rest of the United Kingdom to enter into a currency union with the eurozone, accommodating 40 per cent of trade as opposed to approximately 10 per cent with an independent Scotland. It would even be more in the interests of the rest of the UK, purely on the basis of transaction costs, to enter into a currency union with the United States of America, at 20 per cent of UK trade.

The problems with a currency union go far beyond transaction costs. The costs of a currency union in terms of the lack of economic flexibility for an independent Scotland and the fact that the powers of the economies would diverge substantially, which would substantially increase the risk for the rest of the UK—

Mike MacKenzie: Forgive me—we are a wee bit short of time and you are going beyond the scope of my question.

Danny Alexander: I do not think that I am.

Mike MacKenzie: Can you tell me what that analysis suggests about the cost to the UK and the difficulty that the remaining UK would have in terms of its balance of trade deficit?

Danny Alexander: The balance of trade deficit argument is a bit of a red herring. There is no particular evidence that the currency argument has much of an impact one way or another on the balance of trade. The issue facing the rest of the UK, as has been borne out by analysis from a variety of independent sources in recent weeks, is that of taking substantial risks with the UK economy. We have seen the way in which those risks are transmitted between countries in the eurozone and—

Mike MacKenzie: Can we just confine ourselves to the balance of trade question? I am really shocked and surprised to hear you suggest that that is not important. Is it not the case that the UK balance of trade deficit would double without the benefit of Scotland's exports?

Danny Alexander: No. I do not think it is true, but I do not have that information immediately to hand.

Mike MacKenzie: I am disappointed, Chief Secretary to the Treasury.

Danny Alexander: Maybe Mr Farrington could play a starring role in the closing minutes.

Stephen Farrington: The credit rating agency Fitch Ratings did analysis that estimated that the effect of independence on the UK's balance of payments would be marginal. That is consistent with the analysis that was produced by Professor Brian Ashcroft several months ago. It is also worth saying that, as part of that analysis, Fitch then went on to state that, if the UK was to join a currency union, it would be negative for the UK's credit rating.

Mike MacKenzie: Can you give me the value of Scotland's exports and the significant impact that they have on the UK balance of trade deficit? Surely you have those facts at your fingertips.

Danny Alexander: I do not have those figures to hand. My view, and that of Fitch, is that it is a negligible argument.

Mike MacKenzie: So you do not agree with me that this matter is really quite important for the UK Government to consider as well as the Scottish Government.

Danny Alexander: No.

Mike MacKenzie: So it is not important.

Danny Alexander: I do not agree with you. I am sure there are things that we agree about, but we have not identified any today.

The Convener: Okay. Lastly, we will have questions from Stewart Maxwell.

Stewart Maxwell: Before I move on to the question I was going to ask, I want to clear up something about the Barnett formula. Mr Alexander, two weeks ago, in response to a question from Brian Taylor of the BBC, you said that you are not aware of anyone who is proposing to get rid of the Barnett formula, and you repeated that this morning in response to Marco Biagi's questions. However, your party's own Campbell commission's look at the future of the constitution said:

> "The Liberal Democrats have long believed that the Barnett Formula should be replaced".

How can you reconcile those two statements?

Danny Alexander: I did so very clearly in response to Mr Biagi's questions. I do not have anything to add to the answer I gave then. It is the same question.

Stewart Maxwell: You did not answer the question.

Danny Alexander: I did.

Stewart Maxwell: You said that no party is proposing to scrap the Barnett formula. Your own party is proposing to scrap the Barnett formula.

Danny Alexander: The point that I made in response to the question was that as we go about devolving further tax powers—Mr Biagi referred to that in the context of the Calman commission proposals and the Scotland Act 2012—we have to make adjustments to the block grant and to the way in which it works to account for the revenues. I also made it clear that, as the coalition agreement says, no change to the Barnett formula is on the horizon. As the minister who has been responsible for public expenditure and operating the Barnett formula for the past four years, my view is that, subject to the adjustments that need to be made when tax powers are devolved, it works well.

Stewart Maxwell: Your position is now that you support adjustments to the Barnett formula in line with any changes. The Liberal Democrat position, as outlined by the Campbell commission, is that the Barnett formula should be scrapped, not adjusted. You reject the Campbell commission and the Liberal Democrat position.

Danny Alexander: I can repeat the same answer several times if you like, convener, but—

Stewart Maxwell: I would rather you just answered the question.

Danny Alexander: I have answered the question several times.

The Convener: Okay, Mr Maxwell.

Stewart Maxwell: I am just trying to get an answer, convener, to the direct question about whether Mr Alexander agrees with the Liberal Democrat position about replacing the Barnett formula as outlined by the Campbell commission. He is saying that he will not replace it but adjust it.

Danny Alexander: As I said, the context is substantial further devolution of tax powers, which I strongly support. That requires the process that we are going through at the moment in the context of the Scotland Act 2012, which is to make adjustments in light of devolution. The position as set out in the coalition agreement on that is abundantly clear.

Stewart Maxwell: So, effectively, the Campbell commission recommendations are dead. You do not agree with them.

Danny Alexander: Quite the reverse. Given the recommendations of the Campbell commission, such as substantial further powers on income tax, and devolution of inheritance tax and capital gains tax and so on, they are far from being dead. Those proposals are not just alive but very much part of the debate because we have seen detailed proposals for further devolution from the Conservative and Labour parties. The one thing that people can be certain of is that, if Scotland remains part of the United Kingdom, substantial further tax powers will come to this Parliament—quite rightly so—which reinforces the argument that, as part of the United Kingdom, we have the best of both worlds.

11:00

Stewart Maxwell: I will move on, because it is clear that Mr Alexander does not support his own Campbell commission report and recommendation on the Barnett formula.

Mr Alexander, on 30 May you said on the subject of air passenger duty that

"Flights from Inverness are APD free".

The HMRC website states:

"Passengers carried on flights from other areas of the UK to airports in this region—"

meaning Inverness—

"are chargeable passengers and subject to APD at the appropriate rate."

Which of those is correct?

Danny Alexander: The thing that Mr Maxwell should have in mind is the difference between the meaning of the word "from" and the meaning of the word "to". All flights departing from airports in the Highlands and Islands are APD free. Flights that do not depart from airports in the Highlands and Islands are subject to APD.

Stewart Maxwell: You have said that several times, but do you not accept that you are effectively misleading people in an attempt to pretend that there is no APD in and out of the Highlands? Your latest one was a tweet about Inverness being APD free, and yet we all know that any trade that we encourage into the area, or visitors—for example tourists from the south of England—that you encourage to come to your area, in Inverness-shire, have to pay APD.

Danny Alexander: All flights that depart from airports in the Highlands and Islands are APD free—

Stewart Maxwell: On all flights into the Highlands and Islands, you have to pay APD.

Danny Alexander: That is right, so if you are, for example, flying from Inverness to London, you pay no APD on the flight from Inverness and you pay APD on the flight to Inverness.

My understanding is that the unfunded proposal in the white paper—one of many unfunded proposals in the white paper, and another black hole in the finance for independence—suggests halving APD. Even on that basis, you pay, on the return journey to Inverness, half the APD that you would pay if you were flying outside the Highlands and Islands. Of course, if you were flying from

Inverness to Stornoway and back again—or indeed from Orkney or Shetland to Inverness—you would pay no APD on either leg.

I would add that we have also set out significant investment in the regional air connectivity fund. I was delighted, at the end of last week, to be able to support the first public service obligation under the fund. That will support the route between Dundee and London Stansted, which is a vital economic connection. Again, that shows the UK Government stepping in to support important transport links. I just wish that the Scottish Government would do the same with regard to the A9.

Stewart Maxwell: Tourists coming to the Highlands of Scotland pay air passenger duty. The industry itself, whether that is airport managers or the heads of British Airways, Ryanair, Flybe and many others, have said that APD is extremely damaging to the aviation industry. Do you agree with that?

Danny Alexander: I would say that if the Scottish National Party was truly concerned about the flow of people in and out of the Highlands and Islands—

Stewart Maxwell: No. I am asking what your view is.

Danny Alexander: You are asking about tourists coming in—

Stewart Maxwell: No. I asked what your view is and whether you—

Danny Alexander: I am just about to explain it. My view is that if you were really concerned about that issue, you would not be imposing average speed cameras on the A9—

Stewart Maxwell: I do not think that that affects flights, Mr Alexander.

Danny Alexander: —which are disruptive to the economy. The move is opposed by business organisations in the Highlands. It will not make the route safer, and it just goes to show, once again, that the current Scottish Government is less interested in the economy of the Highlands and Islands than any Government that we have seen for quite some time.

Stewart Maxwell: I have one more question, but it is clear that Mr Alexander struggles to understand that average speed cameras do not affect flights.

The Strathclyde commission and the Campbell commission both state that APD should be devolved. The Strathclyde commission says that

“there is no need for fresh legislation”.

In that case, why will you not promise now, before the referendum, to devolve APD, since no fresh legislation is required?

Danny Alexander: That is something that was considered in response to the Calman commission. It would clearly need to be considered in response to the various proposals that are on the table. That can be taken forward only in the event that Scotland—as I very much hope it will—votes to remain part of the United Kingdom.

Stewart Maxwell: No. Your own commissions have said that you do not require any legislation and you all say that you will devolve APD. Why not just go ahead and do it now?

Danny Alexander: The Strathclyde commission is not my own commission; that is the Conservative Party’s commission—

Stewart Maxwell: The Campbell commission supports the devolution of APD. That is your own commission.

Danny Alexander: Yes, it is.

Stewart Maxwell: So why do you not do it now?

Danny Alexander: As I say, that is something that would need to be considered to be taken forward under any further devolution.

Stewart Maxwell: No, it would not.

The Convener: Okay. I think that you have asked your question, Mr Maxwell. Thank you.

I am afraid that we are out of time. It has been a lengthy session and we have covered a lot of ground. I am grateful to you all for coming along and answering our questions.

11:05

Meeting suspended.

11:21

On resuming—

The Convener: In our next panel for our inquiry into Scotland’s economic future post-2014, I am delighted to welcome Nicola Sturgeon, Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities; John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth; and Dr Gary Gillespie, chief economist in the office of the chief economic adviser at the Scottish Government.

We have about 90 minutes, which I hope will be enough time to cover the topics that are of interest to the committee. I remind members to keep their questions short and to the point; if responses are as short and to the point as possible, too, that would be very helpful if we are to get through those topics in the time available.

Deputy First Minister, will you set out for us in two or three minutes why you think that Scotland's economy would benefit from a yes vote in the referendum in September?

The Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities (Nicola Sturgeon): I am very happy to do that. Before I do so, I thank the committee for giving John Swinney and me the opportunity to come back here today to give evidence at the end of your inquiry, just as we gave evidence at the start of it. All of us have enjoyed following the evidence in the course of the inquiry, and we look forward very much to your report.

My strong belief and position is that a yes vote, leading to Scotland becoming an independent country, will be good for Scotland. In particular, it will be good for our economy. It will give Scotland control over the decision-making levers that determine the success and prosperity of any economy. It will enable us to design an economic policy that is right for our needs and circumstances.

The starting point for us in the debate—I hope that it is the starting point for everybody in the debate, regardless of what side they are on—is that Scotland is a rich country. It is an extremely wealthy country, blessed with extraordinary resources—both human resources and natural resources. An independent Scotland would be the 14th richest country in the Organisation for Economic Co-operation and Development per head of population, generating wealth per head of population higher than that of Japan, France, the United Kingdom itself and indeed the vast majority of independent countries.

We have a strong, diverse economy. As Standard & Poor's said recently, even excluding North Sea oil and gas revenues, an independent Scotland would qualify for its highest economic assessment. The projections that we published two weeks ago on Scotland's public finances show that, fiscally, we would begin life as an independent Scotland in, at worst, roughly the same position as and, at best, a slightly better position than the UK. We can be independent, because we have that enormous starting point as an independent country.

The real arguments for independence concern what it enables us to do. It is about the control over policy levers that I spoke about, which will allow us to design an economic policy that addresses our challenges. An independent Scotland, like all countries, will face challenges. It is important to address those challenges and to maximise the opportunities. Giving ourselves control over economic policy, levers such as immigration policy and both sides of the balance sheet—spending and revenue—so that we can, for example, transform childcare will enable us to transform our economy more sustainably, grow our working age population and increase the level of participation in the labour market.

In the paper that we published just two weeks ago, we set out some of the opportunities for the Scottish economy over the medium to long term that would arise if, through using those levers to best advantage, we were able to achieve those aims.

Independence is all about opportunity. It is about putting yourself in the driving seat with regard to the decisions that shape any country. I believe that it would be incredibly good for Scotland and for the Scottish economy.

The Convener: You have raised a number of subjects that I am sure we will want to explore. Mr Swinney, do you want to add anything at this point?

The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney): No, I am happy to leave it at that.

The Convener: I do not know whether you saw the earlier evidence-taking session with the Chief Secretary to the Treasury.

Nicola Sturgeon: I saw some of it.

The Convener: He raised an issue about Scotland's public finances and the outlook with regard to North Sea oil tax receipts. You mentioned the paper that was published two weeks ago. It says that you project that, under your preferred scenario—scenario 4—they would be £6.9 billion in 2016-17, £7.3 billion in 2017-18 and £6 billion in 2018-19. That is all on page 26 of the analysis.

Last week, Professor Andrew Hughes Hallett, who will be known to you as a member of the Scottish Government's Council of Economic Advisers and as a member of the fiscal commission working group—I understand that he may actually have been the author of the report on the fiscal commission—appeared before the Finance Committee. He told the committee that the revenues for oil for those years would be between £4.5 billion and £5.5 billion, which are substantially below the figures that are quoted in your document. Who is right?

Nicola Sturgeon: As you would expect me to do, I looked at the evidence of Andrew Hughes Hallett and all the evidence that has been submitted in written form and orally to the committee. It is important to point out that, in his written evidence, Andrew Hughes Hallett said that he makes no attempt to provide forecasts of North Sea oil and gas revenues. When he appeared before the committee, he said that

"The particular number comes from the change in speculative revenues",

not the levels. It is not a forecast; it concerns reasons why the revenues might change. He talked about having

"a central projection, with one or two each side."—[*Official Report, Finance Committee*, 4 June 2014; c 4352-3.]

It is important to take Andrew Hughes Hallett's comments in that wider context.

The Scottish Government's projections—they are there to be scrutinised by this committee and any member of the Scottish population—are based on some key forecast assumptions, which are what lead us to scenario 4, which you mentioned. First, the oil price remains constant at $110 in cash terms. It is important to point out that that projection in terms of the price of oil would constitute, by 2018-19, a 10 per cent reduction in the price of a barrel of oil. Prices are currently at $110—that has been the average oil price between March 2012 and March this year. The reason why I say that that is a sensible and cautious estimate is that I can point to a DECC estimate that projects a price of $128 a barrel in 2018. Further, our projection is based on an assumption that production and investment will be in line with industry expectations.

We are being responsible and cautious. However, unlike our opponents on the other side of the debate, we are being sensible about the massive contribution that North Sea oil and gas makes, and we are setting out a clear objective to steward that resource properly.

The Convener: I read the *Official Report* of Professor Hughes Hallett's evidence to the Finance Committee—in fact, I have a copy of it here. He was asked by my colleague Gavin Brown whether he was being reasonable in his estimation and he said that yes, his figures were reasonable. He said:

"If I were so lucky as to be running the budget, I would have that perhaps as a central projection, with one or two each side."—[*Official Report*, *Finance Committee*, 4 June 2014; c 4353.]

It sounds as though you are disagreeing quite substantially with Professor Hughes Hallett's figures, which are lower by £4.3 billion over three years than the figures on which you have based your estimates.

11:30

John Swinney: If you look at the factors of difference between the Scottish Government's estimates and some of the other forecasts, you will see that we are basing our arguments on clearly quantifiable factors, which we have set out.

The Deputy First Minister talked about the price difference. We assume that that price would be $110 in nominal terms, which is the average of what it has been between March 2012 and March 2014.

The Convener: I understand where your figures come from; the Deputy First Minister explained that. I am trying to get at the fact that Professor Hughes Hallett, whom you clearly set a lot of store by, has I presume done his own work and come to a completely different set of figures.

John Swinney: There is a range of estimates about oil and gas revenues and price forecasts. For example, the Deputy First Minister made the point about comparing our price forecast of $110 a barrel in nominal terms with the OBR's figure of $99 and DECC's figure of $130. There are OECD estimates that would go even further than that. Of course, there is a range of estimates; there will not be a standard assessment. We have to make a balanced judgment about the factors.

We have been persuaded by the industry analysis that assumes a 14 per cent increase in production between 2013 and 2018, because that selfsame industry is currently investing about £14 billion in the North Sea oil and gas infrastructure. It is reasonable to assume that if companies are investing very significant sums of private capital in the development of North Sea oil and gas opportunities, returns are likely to arise as a consequence of that.

I am simply trying to map out to the committee the fact that the conclusions at which we have arrived, which we are here to talk through, along with other issues, are clearly based on evidence from wider industry.

Nicola Sturgeon: I will make two brief final points, the first of which is a contextual observation. Andrew Hughes Hallett's written evidence was prepared before the Scottish Government published its most recent oil and gas analytical bulletin.

Secondly, I know that we have all read Andrew Hughes Hallett's full evidence, and he estimates that Scotland would have a budgetary surplus of about 0.7 per cent of GDP in 2016-17. That is a more optimistic projection of our opening budgetary position than the Scottish Government's. I would be interested to know whether the convener or the witnesses whom you have just heard from would agree with that projection.

Different projections can be made, and Andrew Hughes Hallett rightly commands enormous respect. Our projections in the bulletin that I spoke about and in our fiscal projections are robust and cautious, and they provide a good foundation for our planning for an independent Scotland.

The Convener: This is a fundamental question, because your proposition for independence is based on there being a sound set of public finances. Professor Hughes Hallett, who is a well-respected Government adviser—he holds two important jobs and he is in line to be appointed to another important job—directly contradicts your outlook on oil revenues and has a much more pessimistic outlook on them than you do. You must think that he is wrong, so the question is, if he is wrong about that, what else is he wrong about? He wrote your fiscal commission report. If he gets this issue so fundamentally wrong that he undermines your case, how can we trust what is in his fiscal commission paper?

Nicola Sturgeon: I have just pointed to another aspect of his evidence, on the budget surplus, in which he has been more optimistic than the Scottish Government.

The Convener: So he is constantly contradicting you.

Nicola Sturgeon: I am simply saying that projections can be made. I have the utmost respect for Andrew Hughes Hallett. I am saying that we set out robust projections, which we think withstand scrutiny—that is why we are here to subject them to scrutiny. John Swinney and I have already talked through the assumptions that they are based on. I highlight the fact that the written evidence that we are talking about predates the most recent oil and gas bulletin.

The Convener: Have you asked Professor Hughes Hallett to review his evidence to the Finance Committee?

Nicola Sturgeon: I am sure that Andrew Hughes Hallett will review whatever of his own projections he feels he wants to review. He has come before parliamentary committees on many occasions, he has put forward his views and he has been questioned on those views. As you have pointed out, we continue to take advice from him and from a range of experts. We then put forward the projections that we think are solid and robust, as we have done in this case.

The Convener: Professor Hughes Hallett currently has two appointments: he is on the Council of Economic Advisers, and he is on the fiscal commission working group. There is a proposal to appoint him to another job on the Scottish fiscal commission, which will be an independent budget adviser to Government. Do you still have confidence in him with regard to that new appointment on top of all the others?

John Swinney: Unreservedly so. Andrew Hughes Hallett has an incredible volume of experience on all these issues. His international academic track record speaks for itself, and is of a very complex and comprehensive character. The core purpose of the Scottish fiscal commission, to which I propose to appoint three members, is to provide an independent source of expertise to challenge the assumptions that I make about the likely tax take.

I do not wish to be indelicate or impolite in any way, but your line of questioning so far this morning has essentially been on the premise of Professor Hughes Hallett taking a different view from that of the Government on some questions. I would have thought that that was the strongest argument for him to be a member of the fiscal commission, by guaranteeing and exemplifying his independence. That is a pretty strong perspective to have on the matter.

Nicola Sturgeon: Let us cut away a lot of this. What John Swinney just said is absolutely 100 per cent correct. If I follow your logic, convener, we presumably have to go to its conclusion. Andrew Hughes Hallett has projected lower oil revenues. However, as he said in his written evidence, his purpose was not to provide forecasts; it was

“about the issues that must go into the calculation of public finances and whether they would be in surplus or deficit.”

Professor Hughes Hallett has projected lower oil revenues, but he has reached a conclusion that says that Scotland would be in budget surplus, and that projects a more optimistic view in that respect than the Scottish Government does. You cannot take the projection around oil revenues in isolation; you must follow what Professor Hughes Hallett has said to its conclusion, which—based on your view about having to take all such things as gospel—is that Scotland is in an even stronger position than the one that the Scottish Government has projected us to be in.

The Convener: Mr Swinney says that he has unreserved confidence in Professor Hughes Hallett. Presumably, however, you do not have unreserved confidence in his figures and projections, as you fundamentally disagree with them.

John Swinney: As the Deputy First Minister pointed out, Professor Hughes Hallett estimates that Scotland would have a budgetary surplus of around 0.7 per cent of GDP in 2016-17. That is a more optimistic view than the one that I took in the outlook for public finances. I am simply saying that there will be debate about all these questions of oil and gas revenues, and about the fiscal forecasts that I make of the taxes that will arise in Scotland. The crucial point is that we must be able to demonstrate the basis upon which we have reached our conclusions.

As I discussed with you a moment ago, the substance of the difference in position that we take, which substantiates our projections on oil and gas revenues, is about taking a view on price, on production and on investment. Clearly, those assumptions can be tested and I am sure that we will test them this morning. They are judgments that we make about the most likely scenario. Judgments have been made about those factors in other circumstances. For example, in the 2009 UK budget, the Chancellor of the Exchequer, Alistair Darling, forecast that North Sea revenue would be £6.6 billion. It turned out to be £11.3 billion. I share that information with the committee simply to make the point that all sorts of different assumptions will be made about, and conclusions generated by, economic performance.

Fundamentally, we come back to the core point, which is that Scotland is a very wealthy country. It is acknowledged across the political spectrum that Scotland has the resources, the wealth and the public finances to become independent. The question is, what would be the advantages in doing so? That is what we are here to talk about today.

The Convener: I understand that, and I understand that your case is predicated on Scotland having a healthier state of public finances if we were independent than is currently the case. You drew attention to the fact that there is a debate on that point, which is probably an understatement.

We have heard this morning from the Chief Secretary to the Treasury that he takes a fundamentally different view, as the UK Government does, on those figures. We also heard that Andrew Hughes Hallett—who is your own adviser—takes a view on those figures that is fundamentally different from yours. I am just pointing out that, in the debate, you are seeking to defend a proposition but a lot of people are taking a different view.

John Swinney: I am not surprised that the United Kingdom Government takes a slightly more pessimistic view—

The Convener: As does Professor Hughes Hallett.

John Swinney: Actually, he does not. Professor Hughes Hallett has a more optimistic view of the public finances in 2016-17 than is contained in the material that I have put in the public domain. I do not understand the relevance of that point, convener, because Professor Hughes Hallett is setting out a scenario that is more optimistic about the public finances than the one that I have set out.

Nicola Sturgeon: You cannot pick and choose, convener—none of us can—from particular bits of the evidence. Andrew Hughes Hallett stated on page 4 of his written evidence to the Finance Committee that

"by all measures, the Scottish fiscal position will be stronger"

than that of the UK. If he reached that conclusion on the basis of predicted oil revenues that are lower than those that are being projected by the Scottish Government, I cannot see how it can be anything other a positive conclusion for the Scottish Government.

The Convener: Two members want to ask supplementaries on that point.

Chic Brodie: In the previous evidence session, I asked a question about the OBR's forecasting. As Alistair Darling once famously said, the OBR is a wing of the Tory party. That was confirmed by the fact that its first chairman was an adviser to Mrs Thatcher.

In its "Economic and fiscal outlook" document of March 2014, the OBR states:

"Our oil price forecast moves in line with the average of the futures curve over the ten working days to 27 February 2014 for the next two years"

—in other words, through 2016—

"and is held flat at that level for the remainder of the forecast period. Movements in oil prices and the sterling/dollar exchange rate mean that the sterling price of oil is slightly higher than we assumed"

in an earlier forecast.

The OBR also states, in its "Economic and fiscal outlook" document of December 2013, that it considers its methodologies for assessing tax and revenues to be "work-in-progress". The key element in what we are discussing, and the purpose of my question, concerns the macroeconomic forecasts, including oil revenues.

In the same document, the OBR states of the run-up to the most recent budget:

"Due to the confidentiality of the measures we were unable to involve the Scottish Government in this stage of the process."

How many conversations has the OBR had with the Scottish Government and what approaches have been made to it in order to share information?

John Swinney: I cannot recall any contact with the OBR at ministerial level. The chief economist would be best placed to give an official line on that.

Dr Gary Gillespie (Scottish Government): I do not think that there has been any ministerial contact. I meet representatives from the OBR periodically, when they are here to give evidence to committees. I meet the chairman and we talk about various things, but those meetings take place on an ad hoc basis.

Chic Brodie: The OBR says that its methodologies are "work-in-progress"; Dr Richard Dyke said three years ago that there are 100 years of oil left in Scottish waters; and Professor Alex Kemp says that the OBR's estimates are wrong by around 5 billion to 6 billion barrels of oil. Why has any credence been given to people who have unproven methodologies and whose numbers are clearly up and down? I do not understand.

11:45

John Swinney: Three factors influence the calculation of North Sea oil and gas revenues. The first of those is an assessment of price. The OBR's assessment is that oil will be $99 a barrel in 2016-17, after which the price will remain flat. On the basis that the average price between March 2012 and March 2014 was $110 a barrel, we take the view that $110 a barrel is a more reliable and cautious assumption. The assumption also includes what is, in essence, a reduction in the cash value because the amount is being retained in nominal terms.

The second factor is a production assessment, and we take a different view on that. As I said to the convener, it is unimaginable that the industry would invest on such a scale without having confidence in the estimates of the likely proceeds, and a 14 per cent increase in production is forecast over the period to 2018.

The third factor is the scale and range of investment. We think that investment is likely to return to long-term trend levels, which would remove the ability to offset as much investment against tax. Indeed, revenues are deflated at present because of the scale of the capital investment that is under way.

There is a very clear set of reasons why the estimates are different, and it is up to the OBR to defend its estimates. As I have said previously to Parliament, the OBR made estimates of likely levels of economic growth in the country that we have not seen. Economic performance, which is encouraging in the present environment—no one is more pleased about the economic upturn than I am—looks more buoyant because the performance in 2012 and 2013 was significantly diminished from what the OBR suggested that it should have been.

Chic Brodie: Thank you.

Richard Baker: Mr Swinney talks about production costs. Surely the fact that the North Sea is a mature basin means that it will cost more to recover the oil. Therefore, there will be greater investment but much increased production costs and, as has been the case recently, decreased production. The longer-term impact will be a reduced tax take to enable production to go ahead. Do you not agree with the Wood review, which says that the Government would have to reduce its tax take to sustain the industry's long-term future?

John Swinney: The fundamental conclusion of the Wood review—the view of Sir Ian Wood and his commission—was that a very significant economic opportunity exists in the North Sea oil and gas sector. A great strength of the oil and gas sector is that production methodology has developed to adapt to the fact that, in order to recover oil in the North Sea basin, slightly different methods are needed from the ones that were previously adopted during the sector's development. The production cost issues are factored into the assumptions that we make about the likely level of activity that can be envisaged as a consequence of those steps.

Richard Baker: Jo Armstrong recently said that her assessment of what the Wood review meant is that it will require less tax per barrel to be levied than is currently the case to maintain the life of North Sea oil. Do you disagree?

John Swinney: We have come to a conclusion about the likely level of oil and gas production and the revenue flow that will emerge. A couple of weeks ago, we published that conclusion, so it is transparent and there for people to see. I take a different view on the pattern of activity from the one that Jo Armstrong set out. I think that there is a much greater opportunity to develop the North Sea oil and gas sector if we have a stable policy and investment climate in the sector.

Nicola Sturgeon: In a previous answer, I mentioned two of the key forecast assumptions that underpin the material that we have published: price and production. The other two key forecast assumptions are that tax revenues are linked to North Sea operating profits after capital investment and that both revenues and cost will increase. Those four factors were taken into account in coming to our published projections.

The Convener: We should move on.

Marco Biagi: I will ask the same question that I asked Danny Alexander. In the event of a no vote, is the Barnett formula set in stone?

John Swinney: I can only deduce from the public statements that have been made by the Liberal Democrat commission—the Campbell commission—and, indeed, the statement in the Liberal Democrats' 2010 election manifesto—

Nicola Sturgeon: For what that is worth.

John Swinney: It was written by Danny Alexander himself and said that the Barnett formula needed to be replaced with a needs-based formula. There is significant doubt over the Barnett formula in the event of a no vote.

I am not sure whether I have shared this with the committee, but I may have done—I have shared it with other committees. There is a strong body of opinion in other parts of the United Kingdom that wants to dismantle the Barnett formula. The president of the Local Government Association of England came to see me some weeks ago and was very clear and open with me that he wants the Barnett formula to be dismantled.

The issue of the Barnett formula arises not only in the event of a no vote. A current issue, which has been flagged up to the Finance Committee, is that the United Kingdom Government is arguing for a change to the Barnett formula as it currently stands to deal with the application of the devolved taxes—the land and buildings transaction tax and the landfill tax—despite the fact that it made no such proposal in the 2010 command paper, in which it said that the block grant adjustment would be achieved by a one-off change to public expenditure in Scotland. I am involved in negotiations with the United Kingdom Government to try to deal with the fact that it wants to alter the Barnett formula under the current arrangements, regardless of the outcome of the referendum.

From all of that, we can deduce only that there is a significant threat to the continuation of the Barnett formula as we know it.

Nicola Sturgeon: It is also worth pointing out the potential quantum of that. The work that has been done by the Holtham commission suggests that a change from the Barnett formula to a needs-based formula could cost the Scottish budget up to £4 billion a year. People need to be open eyed about that risk.

Marco Biagi: I take it, therefore, that the message from Danny Alexander was that there is no agreement. I did not take it from what he said that there is an agreement between him and the Scottish Government on the methodology for adjusting the Barnett formula. Is that valid? The command paper for the Scotland Act 2012 seems to be clear in proposing something that everybody signed up to, but the report to the Finance Committee suggests something else. Is that an area of disagreement?

John Swinney: Yes, it is an area of current disagreement. I have made the point to the UK Government that the command paper states that, once the land and buildings transaction tax and the landfill tax are applied, there will be a one-off adjustment to the block grant. This Parliament and the UK Parliament voted for the devolution of the tax powers on that basis. Subsequent to that agreement, the ground has shifted and the UK Government is trying to get me to agree to a change to the Barnett formula, which the Parliament will not be surprised to hear I am not prepared to do.

I am currently trying to resolve the issue. It is material because it has an effect on the assumptions that I can make in the formulation of the 2015-16 budget, which I am considering now and will continue to consider in the run-up to the announcement of the budget provision to Parliament on 9 October.

Marco Biagi: There is no independent appeal tribunal or dispute mechanism—other than what the Westminster Parliament ultimately decides to back—should the UK Government wish to override what you want. Am I correct in my understanding of the situation?

John Swinney: The statement of funding policy is a curious creation of the Whitehall machinery. It is designed to agree the financial framework for a devolved Scotland, but the two signatories to the statement of funding policy that regulates the issue are the Chief Secretary to the Treasury and the Secretary of State for Scotland. There are a number of things that I do not like about the statement of funding policy and I make my points when the spending review is announced, but I am not a signatory to the document.

Mr Biagi is correct in saying that the United Kingdom Government, as the determinant of public expenditure, would ultimately be able to apply what conclusions it wished to apply in that respect. However, I hope that, if we operate in an environment of agreement and respect, we could come to some agreement on that point.

Marco Biagi: I have a final question. What precedent does that potentially set, given that there is discussion of the Scottish Parliament gaining more powers in the event of a no vote? Believe it or not, among the no parties, the Liberal Democrats have proposed powers over income tax, capital gains tax, inheritance tax, the aggregates levy, air passenger duty, the assignation of corporation tax and the assignation of dividends and savings taxes. All those would mean changes to the Barnett formula. If the UK Government is not going with what it signed up to in 2012 in that limited context, what would be the potential damage from changing the approach or from the Scottish Parliament signing up to something and getting something else?

John Swinney: The evidence on that is clear. The UK Government's response on the process relating to the devolution of further powers to the

National Assembly for Wales made it clear that, if there is a transfer of tax powers and responsibilities, there will be adjustments to the Barnett formula as a consequence. The UK Government has made it very clear that it has the Barnett formula in play now.

The command paper made it crystal clear that, in respect of the two taxes, there would be a one-off adjustment. However, I have not been able to persuade the UK Government on that, and we now have to consider alterations to the Barnett formula. The UK Government has already said that there will be changes to the Barnett formula in relation to the Welsh example. It is pretty clear what the direction of travel is from the UK Government's perspective if it comes to any further tax powers being devolved.

Richard Baker: My question is for the Deputy First Minister and the cabinet secretary. When will you publish your assessment of the start-up costs to the Government in an independent Scotland?

Nicola Sturgeon: As you will be aware, the work that we have done on all those issues is in the white paper. I can point to several parts of it that cover that territory. You will find information on welfare in chapter 4, on foreign affairs and defence in chapter 6, particularly in pages 206 to 252, and on some of the general principles that underpin that in chapter 10, specifically in pages 343 to 350.

As you know, we have set out—and I will set out again—the reasons why we have not put a figure on that. We do not want to be in the same territory as the UK Government of misbriefing anybody. It is reasonable to ask the question: if the Treasury had been capable of putting a figure on that, why did it feel the need to make one up, in effect, by plucking a figure out of thin air, which was then criticised by the author on whose work it was based? His view, of course, is that the figure was overestimated by a factor of 12.

I will briefly run through the factors that are in play. Much of the infrastructure for delivering services that are currently reserved exists in Scotland and would be part of the share of UK assets that would transfer to Scotland and to which we would be entitled. That is reflected in many parts of the white paper. I will give just one example. Every single pension that is paid to a state pensioner in Scotland is administered in one of two pension centres in Scotland, one of which is in Motherwell and one of which is in Dundee. Indeed, most of the UK welfare system that relates to people in Scotland is administered in Scotland. That infrastructure exists and we do not have to set it up from scratch. As a result of the negotiations that would follow a yes vote, we would seek to transfer that infrastructure from the UK Government to the Scottish Government. I could cite similar examples in relation to defence and other policy areas.

12:00

Where we are in a position that requires the establishment of new systems, or the transfer arrangements that I have mentioned, there will be options and choices for Scottish Governments around the timescales involved. To return to the welfare example, it will be very much in the interests of the UK Government for there to be a short transition period—as the expert group on welfare pointed out in its first report—because the pension centres, as well as administering pensions for pensioners in Scotland, also administer pensions to many people outwith Scotland.

There will also be opportunities for a Scottish Government to make savings in the way in which we deliver those services. The Cabinet Secretary for Finance, Employment and Sustainable Growth can talk in more detail about revenue Scotland, which is a perfect example of infrastructure that we are establishing now. In designing that infrastructure, we are able to deliver efficiency savings that would not be available if we were to do that elsewhere.

Lastly, we—

Richard Baker: You have been working on that for two years, apparently, and you have no costs to give us—not even an estimate or a guess of what the Government start-up costs will be for an independent Scotland.

Nicola Sturgeon: You are either interested in the work that we are doing and the output of that work, or you just want to score points.

Richard Baker: I am very interested.

Nicola Sturgeon: The third point that I was going to make is that there will be a wider negotiation on the totality of UK assets and the share that Scotland will get. Some of those assets, such as the ones that I have described that are physically based in Scotland, will transfer. With others, it would not be practical to do that and there might not be a need for that, so a financial consideration would have to be made. According to the UK assets register, UK assets are worth £1.3 trillion.

That is the work that we have done, and we will continue to look carefully at those issues. The Treasury is a good example of the dangers that befall you when you try to put a definitive cost on something that will be subject to the kind of negotiation and the factors that I have spoken about. When the Treasury tried to do that, it ended up being criticised by Professor Dunleavy and it stands accused of overestimating the costs by a factor of 12.

Richard Baker: Yes, but at least the UK Government has presented a figure that we can debate and that is in the public domain and transparent.

Nicola Sturgeon: We can certainly debate it—we can debate how wrong it is.

Richard Baker: Why, after all the work that we have heard about, is the Deputy First Minister saying that she has made no assessment of what the total cost of starting up new Government agencies in an independent Scotland would be? Is it simply the case that she is not going to tell the people of Scotland what that estimate is?

Nicola Sturgeon: I am telling you about the work that we have done and how that appears in the white paper.

Richard Baker: So there is no estimate of the overall cost.

Nicola Sturgeon: I can point you to particular parts of the white paper that go into considerable detail. Take foreign affairs, for example. The white paper looks at the UK foreign affairs estate, with its 5,000 properties, which are valued at £1.9 billion. We would not necessarily get a population share of that estate—Scotland's share would be a matter for negotiation. The white paper looks in detail at what we would seek to establish. For example, it considers the defence assets that a Scottish Government would inherit, how that would form the underpinning basis of our defence forces, and how we would look to transition defence forces over a period of years. In general terms, chapter 10 goes into some of those issues and the principles that underpin them. So there is a wealth of work that is evidenced in the white paper, which would repay a close reading by the member.

Richard Baker: The memorandum that Mr Swinney submitted to Cabinet some two years ago stated:

> "Work is currently underway in finance and the Office of the Chief Economic Adviser to build a comprehensive overview of the institutions, costs and staff numbers".

Is all that work in the white paper? Can we find all the evidence of the report that was given to Cabinet in the document?

John Swinney: The work that Mr Baker highlights, which was referenced in the document that I put to Cabinet and which is now in the public domain, essentially set out the tasks that we had to work through to set out the arguments around the Scottish independence proposition, which culminated in the publication of the white paper. The white paper essentially encapsulates what we consider to be the most effective explanation of how all those issues would be taken forward.

Mr Baker makes the point that the UK Government has at least published a number, which, to be honest, is a meaningless remark. We have tried to set out the basis on which we can see the transfer of additional functions to the Scottish Government, how we would handle that and how elements of it would be subject to negotiation about the precise operational arrangements and the sharing of assets.

We can set out the framework and methodology. That is all set out in the white paper. We can set it out in as much detail as we can for all the areas for which we can possibly do that. The example that the Deputy First Minister gives about international representation on page 229 of the white paper is given to be as informative as we can be in the debate. However, we cannot properly put a precise number into the analysis if it will be subject to negotiation and discussion with the UK Government about the sharing of assets and operational transfer of functions.

That is a completely reasonable explanation.

Richard Baker: Is it the case that you have made no attempt to estimate what the costs would be or is it simply that you have an estimate that would allow the people of Scotland to make an informed judgment on this important issue but which you are refusing to publish before the referendum?

John Swinney: I am saying to Mr Baker that, in the white paper, we draw together the entire framework of how the issues can be progressed and advanced. If we can get to specific levels of detail on, for example, the number of overseas offices that the Scottish Government envisages being part of our international network, we quantify that because that is our—

Richard Baker: Do you give the cost of it as well?

John Swinney: Of course. We say that the cost is between £90 million and £120 million. It is there on page 229.

Richard Baker: Therefore, you should be able to aggregate an overall cost quite simply.

John Swinney: No. It would be helpful if Mr Baker would listen to all of the answer that I am giving. I am saying that, where we can be very specific about the type of arrangements that we envisage, we will put detail in place but, where we readily accept that there is a need for negotiation and dialogue with the United Kingdom Government, we have to reflect that fairly and honestly in the white paper. If we put a specific number into the white paper, it would have as much value as the complete guddle that the UK

Government got itself into in the publication of its paper a couple of weeks ago.

Nicola Sturgeon: If the Treasury thought that it was possible to give a precise number, it begs the question why it plucked a figure out of thin air in the way that it did.

Richard Baker: It did not. It has explained thoroughly why it got to the figure that it reached.

John Swinney: Well—

Nicola Sturgeon: The author of the work on which the Treasury based its paper—

Richard Baker: It was on the basis of the ICAS assessment, for example.

Nicola Sturgeon: —says that it is an overestimate of 12.

The Convener: Let us not have an argument across the committee.

Nicola Sturgeon: Seriously, convener, and with respect, that comment really deserves to be challenged. The Treasury has explained the basis on which it got to the figure. I will grant Richard Baker that it has attempted an explanation, but it is based on work the author of which said that the Treasury got it completely wrong and overestimated by a factor of 12.

Richard Baker: No, it is not.

Nicola Sturgeon: If the Treasury had been able to get to the precise figure that Mr Baker is talking about, it would not have had to engage in such jiggery-pokery about it in the way that it did.

Richard Baker: That is simply not accurate.

The Convener: Before we leave this topic, seeing as Dr Gillespie has kindly joined us this morning, I ask him whether he or his office has done work on the set-up costs.

Dr Gillespie: All the work that has been done is reflected in the white paper and the work that the cabinet secretary and the Deputy First Minister have outlined.

The Convener: So you have not done any detailed costings that do not appear in the white paper.

Dr Gillespie: As I say, all of the work is reflected in the Government's position.

The Convener: That is not the question that I asked you. I did not ask you whether it was reflected; I asked you whether you had done detailed work on costings that do not appear in the white paper.

Dr Gillespie: No.

Alison Johnstone: This week, we heard that more than 20 million meals have been given to people in food poverty in the UK by the three main food providers—Oxfam, Church Action on Poverty and the Trussell Trust. Those figures are from the paper "Below the Breadline: The relentless rise of food poverty in Britain", of which the cabinet secretary and Deputy First Minister will be aware.

Those organisations make the case for tackling poverty pay and raising the minimum wage to the living wage. Could an independent Scotland have a higher minimum wage and what difference would that make to social security payments, given that the majority of families in poverty are working?

Nicola Sturgeon: That is a pertinent point and a timely question. Alison Johnstone will be aware that, in the white paper, the current Scottish Government gave a commitment that, if it was the Government in an independent Scotland, it would guarantee to increase the minimum wage at least in line with inflation every year. It is instructive to note that, had that happened over the past five years, the lowest paid in our society would be £600 a year better off. We absolutely accept the importance of tackling and challenging the low-wage economy, or the aspects of our economy that are based on low pay.

Going further than that, Alison Johnstone will be aware of the second report of the expert working group on welfare, which was published last week. It makes the recommendation that an independent Scotland should consider—over time, and with appropriate compensation to businesses to allow them to make the transition—raising the minimum wage to the level of the living wage. When I launched that report with the convener of the working group last week, I said that I am sympathetic to that. The Government clearly has to give proper and due consideration to recommendations of that nature, but we are considering that sympathetically and supportively.

The key point that drove that recommendation in the expert group report is that, as Alison Johnstone has indicated, if we lift people out of low pay, we not only improve their ability and that of their families to have a decent quality of life; we also reduce social security payments, because a significant proportion of social security spend is on tax credits that are being paid to people who are in work but who are earning very low wages. If we lift the level of wages, we save money on social security—from memory, the working group estimated that it would be about £280 million—which can be freed up for investment elsewhere, as well as lifting people out of poverty in a much more effective way.

John Swinney: Another aspect is that the journey towards improving levels of remuneration right across the workforce goes hand in hand with an investment strategy to improve the quality of employment. That itself generates greater economic impact and strengthens the public finances as a consequence. That is where some of our thinking is reflected, as set out in our most recent paper, when it comes to improvements in productivity levels.

Alison Johnstone: In our inquiry, we have been looking into the future economy of Scotland. In my view, a successful economy does not just focus on GDP; it is also about wellbeing and increased living standards for all. Are there any other specific policies that you could see being implemented in an independent Scotland that would broaden the focus? Sometimes, economic growth occurs but has no impact on the lives of far too many Scots.

John Swinney: I will begin to answer that question by talking about the way in which the Government has structured its policy performance framework within a devolved Scotland. That is focused on the primary objective of increasing economic growth and performance but, through what I suppose could be called a balanced scorecard, taking into account some of the factors that Alison Johnstone has referred to: wellbeing, sustainability, geographical inequality and intergenerational inequality. It is a matter of establishing that as a template for what we are trying to achieve in our economic performance. The policy interventions that we make would be designed to achieve that and to improve on that.

For example, the measures that we would take to shift the emphasis of investment by using the tax system to incentivise research and development—which we cannot do now—would aim to improve the quality of employment in the Scottish economy and to improve the level of private sector research and development expenditure, which is consistently poor in Scotland compared with some of our counterpart countries. The difference in private sector R and D expenditure between Scotland and Finland is a factor of five. If there is more private sector R and D investment, the likelihood is of better-quality employment, better remuneration and an economic benefit as a consequence.

If we have the benefit of a reduction in social security costs, which the Deputy First Minister has highlighted, there is an opportunity to redeploy public finances in a different fashion to support long-term sustainable investment.

There are a variety of ways in which we can intervene to deliver that better level of performance.

12:15

Alison Johnstone: You spoke about the tax system. Obviously, public services cost money. I am a huge fan of public services, so I have concerns about your announcements on corporation tax and air passenger duty. Some taxes desperately need to be redesigned, and stamp duty is a good example of that. Do you agree that there is a need to secure better public services through taxation?

Nicola Sturgeon: We have to ensure that we have a tax system that is designed so that who it is raising money from and the overall amount of money it is raising are capable of supporting the quality of public services that we want. The key point that is at the heart of our argument is that there is no requirement to raise taxes in Scotland to fund the public services that we have.

Individual tax decisions will be for future Governments of an independent Scotland to take. As Alison Johnstone has pointed out, we have made a couple of specific recommendations on corporation tax and air passenger duty. I appreciate that there is a range of views on corporation tax, but it is a policy with a clear purpose in mind. We recognise that, if we are to have the good quality of public services and the kind of society that we want—I think that we share a view on what that should look like—we need to earn the wealth to pay for it. Having a competitive rate of corporation tax is all about generating and supporting economic growth, and encouraging more investment in Scotland that will lead to more people being employed and more people paying tax.

Debates about taxes and public services almost always reduce to the question whether we should make people pay more tax. I want to see more people in work paying the current tax—that is how we will increase our tax revenues. That is why, in the paper that I referred to earlier, we put so much emphasis on raising the rate of participation in the labour market, increasing productivity and growing our working-age population. That will mean that we increase our tax take without taxing people more. We will do it by having more people contributing productively in the economy.

Alison Johnstone: Can I ask one more question, convener?

The Convener: One more.

Alison Johnstone: Other political parties are offering further devolution in the event of a no vote. Do you have any faith that those offers will help to address the poverty and inequality that have blighted society for far too long? Do you think that they could help to propel a more successful Scottish economy? Do you see them simply as alternative funding mechanisms?

Nicola Sturgeon: My perspective is that I want this Parliament to be as powerful as possible. I suppose that, on one level, I welcome the fact that the other parties to which you refer are, albeit belatedly, embracing the principle that it is better to have decisions made here rather than at Westminster.

Two issues lead to me being sceptical about the offers to which you refer. One is the extent of the powers that are being offered. There is no agreement between the parties on the no side of the debate about what more powers should be devolved to Scotland. Even if we take the maximalist position, which would be the Liberal Democrats' position, although the convener might disagree with that, it would still leave the bulk of our tax base in the hands of Westminster, along with almost all welfare policy, and we know from current experience about the damage that Westminster Governments can cause through welfare policy. It would leave power over immigration in Westminster's hands. I therefore look at the various offers and I do not think that they add up to enough to enable this Parliament to address the challenges that we face and to maximise our opportunities.

The second issue is a degree of scepticism about deliverability and whether, on the other side of a no vote in September, there will be the political will to deliver any extra powers to Parliament. The parties that are now offering more powers were not keen to see that option on the ballot paper, so it is not on the ballot paper and there is no box for people to put their cross in to guarantee those new powers. From past experience in 1979, which my colleague Mr Swinney will remember more clearly than I do—only slightly, I hasten to add—

John Swinney: That was a bit indelicate.

Nicola Sturgeon: We have that experience of Scotland being offered more powers if it voted no, only to end up with 18 years of Conservative Government. We have to have a degree of healthy scepticism about those new powers and why we are getting those offers just now.

Sorry, John.

The Convener: We need to sharpen up a little bit on questions and responses.

Joan McAlpine: I ask everyone to bear with me as I have lost my voice.

Earlier this morning, I questioned Mr Alexander about the briefing paper that he released based on Professor Dunleavy's figures, which Professor Dunleavy then dismissed. Mr Alexander would not explain why that paper was misleading or why he chose to mislead the public in that way. I do not know whether you caught that part of the evidence, but he seemed to be sticking with the £1.5 billion figure that was attributed to Professor Young, which has also been dismissed by Professor Young. What would be your response to that?

John Swinney: My response would be to consider how you would be able to come to a conclusion on the question, and that could be done only by having a concluded view on how the final arrangements of the governance of Scotland would be established after independence. That will be a product of negotiation, so there will inevitably be an element of complexity. We have already discussed how transition periods would operate with regard to the welfare system or other aspects of functions that might remain as shared functions on a temporary or a permanent basis. All those questions are material and would come into the judgment.

Let us consider the £1.5 billion scenario. It concerns an assessment that was based on some analysis that had been undertaken in Quebec, which was then undermined by Professor Young in the fashion that Joan McAlpine mentioned. That does not make for any more robust an assumption than the original, fatal error of trying to extrapolate Professor Dunleavy's work to get to a figure of £2.7 billion.

Joan McAlpine: You will be aware that the Institute for Fiscal Studies, which has been mentioned a lot this morning, produced a report in February that said that more than half of the UK Government's cuts to public services were still to come. In the event of a no vote, what are the implications of that for Scotland?

John Swinney: It is difficult to be precise about exactly what impact that would have on the departmental expenditure limit budget, which is the budget that I currently have control over, or the annually managed public expenditure, which is essentially the welfare budget and some pension costs and debt interest. Assuming that the UK Government was to follow through with that pattern of reductions in expenditure, the question that would prevail would be how big the hit was going to be on welfare versus how big the hit was going to be on devolved public expenditure. The conclusion would have to come somewhere in that analysis.

The UK Government has not set out how much further it will go on welfare. If it does not make significant savings beyond the ones that it has set out on welfare, the cuts have to fall on the departmental expenditure limits that affect our public services—our health service, our education service, local government, transport and so on. It is difficult to separate those functions because the UK Government has not done that analysis and has not published it, but there is certainly a clear agenda of significant reductions in public expenditure.

Joan McAlpine: In the paper "Outlook for Scotland's Public Finances and the Opportunities of Independence", which you published a couple of weeks ago, you talk about the effect of a growth in employment on GDP and national wealth. Will you explain a bit more about how the powers of independence will allow us to grow employment and what your industrial strategy would be?

John Swinney: A great deal of our strategy would focus on using the powers that we would have at our disposal to create a more attractive climate for undertaking research and development activity in Scotland and, as a consequence, to drive future growth in the economy.

We are fortunate in having a very strong university research establishment and network that has growing connections with the business community. We are not getting nearly a sufficient share of the proceeds from that good working to support the launch of new ventures, the application of new technologies and the ability to support those technologies to access wider markets. A crucial part of our economic strategy would be to encourage higher levels of investment, and higher-quality investment opportunities as a consequence.

Secondly, we would take some measures to try to improve Scotland's competitiveness. Although some of the tax measures may not appeal to Alison Johnstone, they would be powerful in improving Scotland's connectivity through air passenger duty and improving Scotland's attractiveness as a business location. We know from our existing performance that Scotland is already a very attractive destination for inward investment, and we need to make that ever more significant.

Thirdly, we need to intensify our efforts to encourage more Scottish companies to become involved in international business activity and export their goods and services to a wider audience. An interesting and powerful example is the oil and gas sector, which is now made up of two distinct components. One involves the production activities in the North Sea, and the other involves the enormous export activity that is undertaken in supplying skills, technology and expertise to other jurisdictions to support the sector's development using experience that has been gained in Scotland.

Finally, we are in a very strong position, given our leading position on sustainable forms of energy, to encourage internationalisation in that regard by developing our renewable energy potential, which is clearly attracting significant international interest.

Chic Brodie: I have one question for Mr Swinney and one for the Deputy First Minister. First, however, I have a brief comment. Yesterday, I was at the Compass school in Haddington. All the pupils were asking questions, and one of them suggested that, if we were to have our own currency, it should be called thistle bucks. I promised that I would tell the cabinet secretary about that, but I assured the pupil that we will continue to use sterling.

Scotland's trade surplus in 2013 was £2.8 billion, whereas the UK had a deficit of £29.5 billion. I do not want to get involved in scaremongering, but if we take out Grangemouth and Elgin, over the past five years our current budget balance has been better than that of the rest of the UK, as has our net fiscal balance. In some of the regions of the UK, child poverty is worse than it is in Scotland, although it is still very bad here.

What is your view of what might happen to the rest of the UK given the £1.3 trillion deficit and the possibility that it will pull out of Europe? In the context of Scotland being a good partner and a good neighbour, what do you think will happen to the rest of the UK, given all those figures?

John Swinney: The economic data tells us that there is a fundamental imbalance in the United Kingdom economy. The data is pretty clear that, in Scotland, we have succeeded in creating a stronger economic platform than it has been possible to create in a number of regions of England and under other devolved Administrations. However, we have not been able to create the type of economic powerhouse and intensity of activity that exists in and around the south-east of England, which has been a factor largely for the entirety of my adult life. I think that that will cause significant economic imbalances in the rest of the United Kingdom, and the inequality gap will grow yet further.

12:30

We attach enormous significance to the issue of inequality. It goes back to the formulation of our performance framework—Scotland performs—back in 2007. We need to tackle inequality wherever we can because it is a major social and economic challenge and difficulty for any society. It is a challenge and difficulty for us in Scotland, it is a greater challenge within the United Kingdom and it will be an even greater challenge in the rest of the UK after independence.

As for the question of EU membership, I have made no secret of the fact that I think that the Prime Minister has started off on a very reckless journey in relation to European Union membership. We have an opportunity in September to avoid getting into the difficulties around EU membership that I think the UK will get into in 2017.

Chic Brodie: Thank you.

Deputy First Minister, without getting into the detail of the oil and gas numbers again, I note that the Bank of Scotland report on 4 April indicated that 39,000 jobs could be created in 2014, in oil and gas production directly and in the very major supply chain. That is a huge opportunity. However, within that figure, only 4 per cent of the total workforce are women. I know about some of the work that you are already doing, but will you comment on how we can encourage more women to become involved in that huge opportunity?

Nicola Sturgeon: My first comment about that oil and gas report is that it underlines the fact that the oil and gas industry is an enormous advantage and bonus for Scotland. Sometimes in the debate, it can seem a wee bit weird to hear it described as if it is an enormous burden. Many countries across the world would love to be in our position. The challenge for the future is to steward the industry properly to ensure that we can maximise the revenues that have yet to come from the North Sea and to steward them in a way that allows us not just to meet current needs but to leave something for future generations.

Your point about female employment is an important one. I will try to be brief because there are various different strands to the answer to the question. They include encouraging women and young girls to see the job opportunities and careers that you are talking about in the oil and gas industry as attractive, ensuring that the right skills are in place and ensuring that women are getting access to modern apprenticeships and skills opportunities in the kind of jobs and professions that, traditionally, they have perhaps tended not to go into. Angela Constance, as the cabinet secretary with responsibility for youth employment, is very focused on some of those issues.

A more generic strand is around ensuring that we provide the social policies that support women who want to go into the labour market or return to work to pursue careers. That is where the childcare policy that we set out in the white paper, which has been talked about many times in the past, is so important. It will ensure that childcare costs, which in the UK just now are amongst the highest of any country in Europe, are not a barrier to women who want to return to work and reach the full potential of their careers.

There are a range of things that we need to do. Some of them we are trying to progress now and some we will be more able to progress with the powers of independence. The pay gap—44 years after the Equal Pay Act 1970 was passed—is another challenge, and the ability for the Scottish Government to set out the timescale and the implementation plan for that would be an enormous advantage to many women who are not being paid fairly and equally for the work that they do.

Margaret McDougall: The white paper mentions the redistribution of wealth but, as with much that is in the white paper, there are no policies or explanations of how that is going to happen. Can you tell us what policies you have for the redistribution of wealth and how we will tackle inequalities through that redistribution?

Nicola Sturgeon: I take a completely opposite view to Margaret McDougall's. The white paper is full of policy propositions that would help us to tackle those inequalities. We cannot tackle those problems overnight; independence is not a magic wand. However, policies flowing from having our hands on the levers of power would allow us to tackle some of the deep-seated inequalities.

I have just mentioned childcare, and I told Alison Johnstone about our proposals—some of which are in the white paper, while others would flow from the expert working group on welfare—on how we would redesign our welfare system to lift people out of poverty and ensure that people are properly supported into work, that they are paid a fair and decent wage when they are in work and that we have a decent safety net. John Swinney talked about using economic powers to ensure that the quality of the jobs that we are helping to create for people is at a level that helps to lift people out of poverty.

I can point to a whole range of policies that we are implementing in the devolved set-up that are about protecting the incomes of the lowest paid. Our set of policies on the social wage is very important to us. I know that the Labour Party is going through a process of deciding which policies it wants to keep and which ones it wants to get rid of, but we are very committed to the council tax freeze and to free access to university education. I came from a working-class background in the west of Scotland, and I would not have gone to university and would not be sitting here had I not had access to university education for free. That is a key policy that we have introduced and we are committed to maintaining it to ensure that, regardless of a person's background, they get the chance through education to reach their potential.

I am very proud of this Government's policies that are about closing the inequality gap and maximising opportunity for people regardless of their background. The powers that come with independence will allow us to build on those policies; indeed, they would allow any Government in an independent Scotland, including a Labour

Government, if it had the political will, to build on them.

Margaret McDougall: You have spoken mostly about inequalities, but I also want to know about your policies on the redistribution of wealth.

Nicola Sturgeon: Closing the inequality gap is about redistributing the allocation of wealth across our society. That is all about making sure that we lift people out of poverty by raising their income levels by ensuring that, for example, they get decent pay for a decent day's work, and it is also about ensuring that young people, regardless of their backgrounds, can use education as a route out of poverty. All of that is absolutely integral to the task of closing a gap that, with Scotland as part of the UK, is widening. That is one of the most important tasks facing Scotland over the next few years.

The final point that I make to Margaret McDougall on this issue is quite important. If you do not agree with the SNP's policies for an independent Scotland, that is fine; that is your entitlement. If that is the case, you should put forward your own policies about how we would use the levers of decision-making powers in an independent Scotland to do things better if you believe that we are not proposing policies that would live up to that. Be ambitious. There might be a Labour Government in an independent Scotland that is able to implement the policies that you want.

Margaret McDougall: I am sure that there would be.

I have a question for Mr Swinney on wealth. I noticed that the Deputy First Minister steered away from mentioning taxation as a way of redistributing wealth in her answers to my question.

Nicola Sturgeon: I have spoken about taxation; I gave a long answer on that to Alison Johnstone.

Margaret McDougall: Mr Swinney has mentioned tax take a couple of times. What consideration has been given to tax take and tax levels in an independent Scotland?

John Swinney: First, we make it clear in the white paper that there is no necessity for an increase in taxation for the public finances of an independent Scotland to be sustainable. We would inherit the tax rates that were in place in the United Kingdom and it would be up to the Government of an independent Scotland to vary those in line with its mandate to do so. However, we make clear an exception—we would not apply the tax allowance for married couples and we would redeploy the savings from that to other purposes. Essentially, the choices would be there for a Government to determine the appropriate tax measures to take, based on the electoral mandate that it sought and took forward.

Secondly—I think that this is a pretty widely acknowledged point and that I correctly attribute it to the Institute for Fiscal Studies, although it certainly applies to other organisations—being a smaller country gives us the opportunity to operate a more efficient tax system and to embark on collecting the tax that is rightfully due.

Before I came to this committee, I spent the morning with the Finance Committee going through amendments to the Revenue Scotland and Tax Powers Bill, in which I set out for the first time in legislation in Scotland the approach that we will take towards tax collection and tax management. A fundamental principle of that bill is a very high level of intolerance towards tax avoidance, and the Finance Committee and I chewed over whether I could do more to stretch that. I am open to such discussions.

That is an important point about tax take. We have to set out from day 1 that we are deadly serious about collecting the tax that we want to collect and that we will design a system that is based on that collection rather than on the opportunities for creative planning—if I can put it euphemistically—that can often be applied in the tax system in the country. By operating in that more efficient climate, which we have also demonstrated with the costings for revenue Scotland—there will be a 25 per cent saving to the public purse as a consequence of its activities—we have a lot to be confident about with our approach to tax take.

Margaret McDougall: We have heard that you would not increase taxation in an independent Scotland, yet we hear that you are unlikely to increase the retirement age. We have an ageing population, and we have heard from witnesses this morning that the cost of that for pensions is likely to be around £6 billion. How will you balance the books, given that there will be no increase in taxation to cover pensions or welfare?

John Swinney: It was nice that Margaret McDougall referred to the witnesses on the first panel as if they were independent authorities on the subject. They were two representatives of the UK Government. I only say that—

Margaret McDougall: That is how I view them: as witnesses.

John Swinney: They were just any old witnesses, just like any old witnesses that turn up any other week.

We set out in the white paper that we would explore the justification for the rapid policy change to increase the retirement age from 66 to 67. The timescale for that has accelerated dramatically, and we will look at that again. Although life expectancy is improving, the experience of life expectancy in Scotland is poorer compared with that in other parts of the UK. Independence will give us the opportunity to consider whether it is necessary to make the proposed increase in the retirement age. We have set out the details of that in the white paper.

Crucially, all those judgments will have to be made along with the wider judgments that we make about the sustainability of the public finances, which are routine decisions for Government.

Nicola Sturgeon: We pay for things such as pensions and welfare and all the services that are delivered on a reserved basis by the UK Government. We pay for them out of our taxes and our national insurance contributions. We do not get them for free. We contribute to that.

Social protection spending, which includes spending on pensions and welfare, constitutes a lower share of our GDP and a lower share of our tax revenues than it does for the UK as a whole. Our starting point on those things is that we are in a more affordable and sustainable position.

As any Government of any independent country must be, any Government of an independent Scotland would have to be fiscally responsible and would have to balance the books, and John Swinney has a better record of doing that than some of his UK counterparts over recent years. We start in a strong position, and independence would give us the ability to access our own resources and make our own judgments about how those resources are best spent.

12:45

Mike MacKenzie: You might not be aware of this, but Danny Alexander and Alistair Carmichael, who were here earlier, seemed to be very proud of the fact that, thanks to their policies, a large and growing number of people in the UK no longer pay any taxes at all because they earn so little.

You talked about creating a higher-wage economy. Would you agree that there is scope to move towards that to benefit the people at the lower end of the earnings spectrum? In addition, the Scottish exchequer would benefit from an increased tax take without raising taxation rates.

John Swinney: It is important that people on low incomes are protected, but what worries me about the current debate is that we almost accept low pay as a fact of life. I do not want to accept low pay as a fact of life. We need to take steps to improve the level of the remuneration that large numbers of people are living on. That is why, in all our arguments, we set out the case for moving to a higher-value economy, which would have the consequence of improving the remuneration of individuals. To be absolutely honest about it, as finance minister I have a vested interest in ensuring that people earn more money so that they can pay proportionately more in taxation.

Mike MacKenzie: Thank you.

I want to move on to issues of taxation that relate to oil and gas. From talking to people in the industry, it seems to me that George Osborne's tax raid in 2011 had a very negative effect, in that the 16 significant fiscal changes over the previous decade had the cumulative effect of depressing the industry and therefore, possibly, the tax revenues that accrued from that industry. Would you care to comment on that?

John Swinney: I think that it is beyond dispute that the 2011 tax changes had a disastrous impact on the industry and that they interrupted investment in and development of the sector. In 2011, the UK Government spoke about those measures with a sense of celebration and achievement but, by 2012, it was taking a completely different tack. I think that that tells us all that we need to know. Even the United Kingdom Government realised that it had got it spectacularly badly wrong in 2011.

I agree with Richard Baker that, given the challenges of a mature basin, it is necessary to have in place a more stable regime for the industry, in which companies can operate and invest. Therefore, creating a more stable regime would be a priority for a Scottish Government.

Mike MacKenzie: My reading of the OBR's analysis suggests that quite a number of areas of taxation that are associated with oil and gas are not included in that analysis. You mentioned that the international supply chain is very significant now. A recent Bank of Scotland report suggested that there will be an increase of 39,000 jobs in oil and gas in the next two years, which will result in an increase in employment taxes. The OBR is not capturing all the taxation that will result from the kind of renaissance that we are now seeing in oil and gas. Is that a reasonable assessment?

John Swinney: Certain changes have been made to the calculation of oil and gas revenues, whereby the OBR has shifted elements of what, historically, would have been the tax take that would flow into North Sea oil and gas revenues and has accounted for them in different ways. That does not take the tax income away, but it affects the presentation of it and the arguments around it.

A key point about the oil and gas industry is that a substantial proportion of the employment in the sector is very high value, and a significant tax benefit arises out of that, into the bargain.

As I said earlier, there are two distinct components to the oil and gas sector. There is the production activity in the North Sea basin, but there is also the substantial domestic and international business that arises from exporting the technology and expertise of the sector in Scotland.

Mike MacKenzie: I will move on to currency union. I was quite shocked to hear Danny Alexander say earlier that the UK Treasury had taken no account of the value of Scotland's exports and its contribution to the UK balance of trade deficit in informing its thinking on whether it should maintain a currency union with Scotland after independence. Mr Alexander did not seem to feel that that was at all significant. Will you comment on that, please?

John Swinney: That is symptomatic of the fact that, fundamentally, the Treasury team has taken an entirely political and campaigning stance on the question, which will change in the event of a yes vote.

Mike MacKenzie: I have a final brief question. Both Mr Carmichael and Mr Alexander seemed to suggest that, after independence, the UK will not buy Scottish energy but, just yesterday, DECC released a further warning about UK energy security. It suggested that it may have to take some old generating plant out of mothballs, and some of the safety requirements on carbon rods for nuclear power generators have already been relaxed. It does not seem credible that the UK will not continue to buy energy from Scotland after independence, given that we already export a fair degree of energy south of the border.

John Swinney: That is a fair conclusion to draw. The issues around energy supply and energy security in the rest of the United Kingdom will require the UK to continue to have an active relationship with generators in Scotland, not least in fulfilling the UK's carbon reduction targets.

Stewart Maxwell: I will move the witnesses on to the issue of air passenger duty. A report by York Aviation that was published in October 2012 found that, since 2007, APD rates in the UK had increased by approximately 160 per cent for short-haul flights and by between 225 per cent and 360 per cent for long-haul flights. The report stated that the likely impact of that would be that, by 2016, £210 million less would be spent per annum in Scotland by in-bound visitors than would have been the case if APD had not risen in that fashion since 2007.

Do you accept York Aviation's analysis? What is the Scottish Government's view of the impact of the current APD rates on the Scottish economy?

Nicola Sturgeon: I will kick off on that. I broadly accept the York Aviation research to which Stewart Maxwell refers, and the numbers that he cites paint a picture of the damage that APD is doing to our airports, to tourism and to the broader economy.

I am sure that members will have heard Gordon Dewar from Edinburgh airport speaking on the radio just yesterday morning. He outlined—very powerfully, in my view—from a completely non-political standpoint, the impact of APD on how the airport operates. He explained the disadvantage that he and his colleagues start with. Every time they go into a negotiation with an airline about a new route, they start from behind, because they have to factor in the impact of APD.

The case for being able to reduce or get rid of APD is overwhelming. I pray in aid of that statement the fact that, just last week, we heard the Conservatives saying that they thought that APD should be devolved. If they believe that, they must believe that it is right for the Scottish Government to make decisions about APD. If that is the case, we should get on and do it—why are we waiting?

If we had the ability now to do something about APD, we could start to deal with some of the impacts on the economy that Stewart Maxwell describes. I cannot for the life of me see why we have been having to make the case in principle for several years without being able to reach a position in which the UK Government agrees to act.

Stewart Maxwell: I asked the previous two witnesses from the UK Government a similar question to the one that I am about to ask you. The Strathclyde commission and the Campbell commission—which represent the views of the Conservative and Liberal Democrat parties on the constitution—both stated that APD should be devolved. In fact, the Strathclyde commission went on to say that

"there is no need for fresh legislation."

Given that that is the case, and given that it seems that everybody now agrees that APD should be devolved and that there is no need for fresh legislation to allow that to happen, do you find it rather confusing, at the least, that Danny Alexander said earlier that we would have to wait until after a no vote before the devolution of APD could happen?

Nicola Sturgeon: Yes, although for me that relates back to the comment that I made in response to Alison Johnstone about my scepticism about whether the powers in question will ever be delivered in the event of a no vote, because if you—by you, I am talking about both the Conservatives and the Liberals because, as Stewart Maxwell rightly says, the policy of both parties is to devolve APD—are sincere in holding that position and if it can be delivered, as Stewart Maxwell mentioned, without primary legislation, why on earth would you sit back and wait in order to do it? You would get on and do it. Perhaps that would be a way for the Conservatives and the Liberals to show some good faith and to demonstrate that they are serious about devolving more powers.

The fact that they do not appear to be willing to do that certainly heightens the scepticism in my mind. I have written to the UK Government to make that point and to ask it to get on with the devolution of APD. To the best of my knowledge, I have not yet received a response. If you believe that it is right to devolve APD, there can be no justification for not getting on and doing it.

Stewart Maxwell: You may be aware of the study, "The economic impact of Air Passenger Duty". Questions have been raised about how, if you cut a tax—in this case, air passenger duty—you fill the black hole in your finances, to use the terminology of some of the other parties, but that UK-wide study, which was published in February 2013, said that abolishing APD would boost the UK's GDP by 0.46 per cent in the first year and that it would have continuing benefits up to 2020. It said that the UK economy would be boosted by at least £16 billion in the first three years and that the abolition of APD would result in almost 60,000 extra jobs across the UK in the longer term. Is that the Scottish Government's analysis of the impact of abolishing APD in Scotland? Would it, in fact, result not in a black hole in the finances, but in an increase in the funds available?

Nicola Sturgeon: That is the whole point of doing it, and people in the airport industry make that point. Let us take tourism as an example. If, by getting rid of APD, we can be more successful in establishing air routes and we get more tourists to come to Scotland, those people will spend more money here and will pay VAT on the things that they buy, so we would grow revenue. As you say, independent analysis bears out the fact that getting rid of APD will benefit the economy, because it will take away a blockage to growth in tourism and in the wider economy.

John Swinney: I will add to what the Deputy First Minister said. The crucial point about exercising the power under independence as opposed to it being exercised in a devolved environment is that, under independence, the decision would bear fruit for us, so the funds from the increased VAT, increased economic activity and increased employment would all flow into the exchequer of an independent Scottish Government. Based on my experience of block grant adjustments, which I discussed with Mr Biagi, I am deeply sceptical that we would see any of that money under devolution.

Stewart Maxwell: I have a final brief question on a separate subject. Earlier, Mr Carmichael distanced himself from the UK Government's patronising campaign in which it uses Lego figures to discuss the benefits of staying in the union. Can I confirm that under no circumstances would the Scottish Government spend £30,000 on Lego?

John Swinney: I can say, in my professional capacity as finance minister, that I would not spend £30,000 on Lego on behalf of the Scottish Government. However, I cannot rule that out as the father of a three-year-old son who adores Lego. I hope that I have given Mr Maxwell a sufficiently careful answer.

Stewart Maxwell: Thank you.

The Convener: That is a nice note on which to end our discussions. I thank our witnesses this morning for coming in and helping us with our inquiry.

As this is the last public session in our inquiry, I put on record my thanks to all those who have given us evidence, either in writing or orally, over the past four months. I also take the opportunity, on behalf of committee members, to thank our team of clerks and the staff in the Scottish Parliament information centre for all their assistance throughout the inquiry. On a personal level, I thank all my fellow committee members for their diligence during the inquiry and their general good conduct throughout.

13:00

Meeting continued in private until 13:03.

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