FINANCE COMMITTEE

AGENDA

26th Meeting, 2015 (Session 4)

Wednesday 28 October 2015

The Committee will meet at 10.00 am in the Robert Burns Room (CR1).

1. Decision on taking business in private: The Committee will decide whether to take items 4, 5, 6 and 7 in private.

2. Scottish Fiscal Commission Bill: The Committee will take evidence on the Bill at Stage 1 from—

   Sean Neil, Acting Deputy Director of Finance, Alison Cumming, Head of Tax Policy, and John St Clair, Senior Principal Legal Officer, Scottish Government.

3. Pre-Budget scrutiny of Scottish Rate of Income Tax: The Committee will take evidence from—

   Edward Troup, Second Permanent Secretary, and Sarah Walker, Deputy Director and Head of Devolution Team, HM Revenue and Customs.

4. Land Reform (Scotland) Bill: The Committee will consider a draft report on the Financial Memorandum to the Rural Affairs, Climate Change and Environment Committee.

5. Alcohol (Licensing, Public Health and Criminal Justice) (Scotland) Bill: The Committee will consider a draft report on the Financial Memorandum to the Health and Sport Committee.

6. Scottish Fiscal Framework: The Committee will consider its response to correspondence from the Deputy First Minister.

7. Proposed Contingent Liability: The Committee will consider its approach to a proposed contingent liability.
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The papers for this meeting are as follows—

**Agenda Item 2**

SFC Cover note

**Agenda Item 3**

HMRC update on SRIT

**Agenda Item 4**

PRIVATE PAPER

**Agenda Item 5**

PRIVATE PAPER

**Agenda Item 6**

PRIVATE PAPER
Finance Committee

26th Meeting 2015 (Session 4), Wednesday 28 October 2015

SFC Bill

1. The Scottish Government introduced its Bill to give the Scottish Fiscal Commission a basis in statute on 28 September 2015: http://www.scottish.parliament.uk/S4_Bills/Scottish%20Fiscal%20Commission%20Bill/SPBill78S042015.pdf Copies of the Bill and the accompanying documents have been circulated to the Committee. The Committee has issued a call for evidence and this is attached along with the SPICe briefing on the Bill.

2. At its meeting on 28th October the Committee will take evidence from the Bill team.

Clerk to the Committee

October 2015
Scottish Fiscal Commission Bill – Call for Evidence

The Scottish Government introduced its Bill to give the Scottish Fiscal Commission a basis in statute on 28 September 2015: http://www.scottish.parliament.uk/S4_Bills/Scottish%20Fiscal%20Commission%20Bill/SPBill78S042015.pdf

The Commission has been operating on a non-statutory basis since June 2014. The Scottish Government has already consulted on a draft of the Bill and the responses are available here: http://www.gov.scot/Publications/2015/09/2406/downloads

The Finance Committee which now has the role of scrutinising the Bill as introduced has previously examined proposals for a Scottish Fiscal Commission (SFC) and published its report in February 2014: http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/72938.aspx The Committee also considered the role and remit of the SFC as part of its consideration of the Smith Commission proposals for an updated fiscal framework for Scotland: http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/90923.aspx.

Forecasting tax revenues

Section 2(1) of the Bill requires the Commission to assess the reasonableness of the Scottish Ministers’ forecasts. The policy memorandum states that “the preparation of forecasts of tax revenues which underpin the Scottish Budget should be the responsibility of Scottish Ministers, who should in turn be directly accountable to the Scottish Parliament for these forecasts.” It is not proposed that the Commission should prepare its own forecasts. However, the Committee recommended in its submission to the Scottish Government consultation on the draft Bill that the Commission should carry out its own forecasts.

The Committee would welcome views on whether:

- there is a need for independent forecasts in addition to the Scottish Government official forecasts?
- the Commission should have the capacity and resources to make its own forecasts even if its role is to assess the official forecasts?
- the Scottish Government forecasts should be subject to sensitivity analysis carried out by the Commission?
- the Commission should be able to develop its own forecasting methods and analytical capacity in order to provide a benchmark set of projections?

Role of the SFC Prior to the Publication of the Scottish Government Forecasts

Section 4(1) of the Bill as introduced requires the Commission to publish its report on the assessment of the reasonableness of the forecasts for the devolved taxes on the same day as the draft budget is published. Section 4(3) requires the Commission to provide a copy of the report to Ministers in advance of publication.

This means that the Commission will be required to carry out its assessment of the Government’s forecasts prior to publication. The Commission describes this approach in its first report in October 2014 as “one of enquiry and challenge, followed by response, followed by further enquiry and suggested improvements.”

The Commission also states on its website that throughout “the year the Commission scrutinises the Scottish Government’s work in developing models and methodologies to produce its forecasts. Its interaction with the Scottish Government informs the Commission’s understanding of the reasonableness or otherwise of their forecasts and its scrutiny improves the methods used by the Scottish Government and thereby the eventual forecasts.”

The Committee has previously recommended that, if the SFC is to have only a forecast assessment role, in order to ensure the Commission’s independence it is essential that it has no role in producing the forecasts. The Scottish Government responded that it “agrees that the SFC should have no role in producing the original forecasts” and “intends to set this out in establishing the remit of the body, on a non-statutory basis for an interim period and on a statutory basis in due course.”

The policy memorandum states that the Commission is able to “exert significant influence over the forecasts which underpin the Scottish Draft Budget.”

The Committee would welcome views on whether:

- the Commission should exert significant influence over the forecasts at the same time as providing an assessment of their reasonableness?
- the Commission should have a role throughout the year in scrutinising the Scottish Government’s work in developing models and methodologies to produce its forecasts?
- the Commission should carry out its assessment of the Scottish Government forecasts either before or after publication?
- the Commission should be required to send a copy of its report on its assessment of the forecasts to Ministers prior to publication and, if so, how far in advance?

Additional Functions

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2 http://www.fiscal.scot/media/media_364407_en.pdf
3 http://www.fiscal.scot/aboutus/scrutiny/
4 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/72938.aspx
The Policy Memorandum states that the “policy content of the Bill at introduction reflects the existing legislative competence of the Scottish Parliament, as amended by the Scotland Act 2012. In time, we expect to see the remit of the Commission develop substantially to take account of the new fiscal powers to be devolved under the Scotland Bill currently proceeding through the Westminster Parliament and any further future devolution.” The consultation on the draft Bill identified a number of possible future functions including the assessment of the Scottish Government’s performance against fiscal rules and assessment of mechanisms for adjusting the block grant.

The Committee recommended in its submission to the government consultation on the Bill that the functions of the Commission should include judging the performance of the Scottish Government against its fiscal targets and an assessment of the long-term sustainability of the public finances. The Committee also recommended that there should be a legislative requirement for the Scottish Government to prepare a charter for budget responsibility.

The Committee would welcome views on whether:

- the Commission should have a wider role in assessing the sustainability of Scotland’s public finances such as adherence to fiscal rules and, if so, should the Bill be amended now to reflect this?
- the Bill should be amended to include assessment of mechanisms for adjusting the block grant?
- there should be a legislative requirement for the Scottish Government to prepare a charter for budget responsibility and the Commission should have a role in assessing adherence to the charter?

Right of Access to Information

Section 7 of the Bill states that the Commission has a right of access at reasonable times to any relevant information from the Scottish Government, Revenue Scotland, SEPA and the Registers of Scotland. The Committee has previously recommended that the right of access should be established on a statutory basis and the detail set out in a Memorandum of Understanding (MoU). The Committee also recommended that it is essential that any contact between the Commission and these bodies should be based on a transparent framework of co-operation and that the basis of the working relationship should be set out in a MoU. The Scottish Government agreed with these recommendations.

The Committee would welcome views on:

- is the right of access in the Bill robust enough?
- is there a need to include a requirement for a MoU on the face of the Bill?
- what principles should underpin the working arrangements between the Commission and the Scottish Government and other relevant public bodies?

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• the process and timings for the Commission’s engagement with the Scottish Government and how this should be set out in the MoU?
• the process and timings for the Commission’s engagement with HMRC and the OBR and how this should be set out in the MoU?

Appointment of Members and Staff

The Bill provides for Members of the Commission to be appointed by Ministers but only if the Scottish Parliament has approved the appointments. The current Members will form the first statutory Commission, serving to the conclusion of their current appointment terms. All subsequent appointments to the Commission will be subject to the Public Appointments and Public Bodies etc. (Scotland) Act 2003. Members (including the Chair) can only be appointed for one fixed term. The period of appointment is to be determined by Ministers who may also remove a member from office under specified conditions but only with the approval of the Parliament. The Commission will determine its own staffing arrangements, with the terms and conditions of employment to be agreed firstly with Ministers.

The Committee would welcome views on whether:

• the proposed appointment and removal procedures are adequate for ensuring the independence of Commission Members?
• Ministers should determine the period of office of each Member or should it be specified in the Bill?
• appointments should be for one fixed term or should there be an option for a further term?
• should the Commission determine its own staffing arrangements on the basis of terms and conditions of employment agreed firstly with Ministers?

Resources

The Financial Memorandum (FM) states that the estimated recurring costs arising from the Bill are £850,000. Staff costs are estimated at £345,000 from 2017-18 on the basis of the provisions within the Bill and 6 full time equivalent staff. Member costs are estimated at £112,000. This includes £104,000 for the remuneration of Members and £8,000 for expenses. The daily rate is £465 for the Chair and £331 for other Members with an assumed time commitment of 1.5 days per week.

The committee would welcome views on:

• the overall costs set out in the FM;
• the number of staff;
• the remuneration and assumed time commitment of Commission members;
• the likely costs of expanding the Commission’s role to include an assessment of key aspects of Scotland’s fiscal framework such as the Scottish Government’s adherence to fiscal rules.

How to submit your evidence

The closing date for responses is Friday 6 November 2015.
All responses should be sent electronically (in Word format – no confirmatory hard copy required) to finance.committee@scottish.parliament.uk. Written responses will be handled in accordance with the Parliament’s policy for handling written evidence received in response to calls for evidence. All written evidence received may be published by the Parliament and will be treated as a public document. If you wish to submit evidence in confidence or anonymously please read the policy at the link above.

What happens next?

The Committee will be considering those witnesses it wishes to hear oral evidence from in due course, informed by the written evidence received. Oral evidence sessions are likely to be in November and December.

Contact

Should you require alternative formats of this information or further assistance in making a written submission to the Committee, please do not hesitate to contact the clerking team of the Committee via the email address above or by telephone on 0131 348 5451.
Financial Scrutiny Unit Briefing
Scottish Fiscal Commission Bill

23 October 2015
SB 15/67

Ross Burnside

This briefing summarises the background to the Scottish Fiscal Commission Bill and key elements of the Bill as introduced. It also contains likely issues and themes for parliamentary scrutiny of the legislation.

Copyright: Scottish Fiscal Commission
EXECUTIVE SUMMARY

The Scottish Fiscal Commission Bill was introduced in the Scottish Parliament on 28 September 2015. The Bill proposes to put the Commission on a statutory footing from April 2017, with a remit to scrutinise, assess the reasonableness of and report on the Scottish Government’s devolved tax revenue forecasts and on the economic determinants underpinning Scottish Government non domestic rate income (NDRI) forecasts.

Issues around the creation of an independent fiscal institution (IFI) in Scotland have been on the parliamentary radar for some time. There is broad political consensus that an independent fiscal commission should be created in Scotland.

The Scottish Fiscal Commission (SFC) has been established on a non-statutory basis since mid-2014, and the Bill before Parliament proposes putting it on a statutory footing from 1 April 2017.

Scotland Act 2012, which devolved two new taxes to Scotland, and the legislative process currently underway to implement the recommendations of the Smith Commission, have been key drivers of the process to create an SFC.

Parliamentary debate around the creation of the SFC has centred primarily on its remit, and the degree to which it will be independent of Government. The Finance Committee has undertaken extensive work already on the issue and is the lead Committee tasked with scrutinising the Bill. The Finance Committee has issued a call for evidence, garnering views on a range of themes that will frame its scrutiny.

The Bill as introduced in the Scottish Parliament contains some changes from the Draft Bill issued for consultation by the Scottish Government.

The Bill is accompanied by a Financial Memorandum (FM) setting out best estimates of the costs of the SFC delivering its functions. From the first year of operation (2017-18), annual costs are estimated to be £850,000, 54% of which will be to pay 6 full-time equivalent staff and members. The remaining 46% of the budget (£393,000) is proposed for non-staff costs like accommodation, commissioning research, corporate and IT infrastructure. However, the FM makes clear that “it will be for the Commission to determine how it utilises its resources to perform its statutory functions.” The Irish Fiscal Advisory Council (IFAC) has an annual budget of approximately €800,000 (£580,000) and a staffing complement of 5 full time equivalents.

There has been a proliferation in independent fiscal institutions (IFIs) in recent years, particularly since the 2008 financial crisis. IFIs are deemed useful in providing an additional check on the operation of a jurisdiction’s fiscal framework. The OECD has developed a number of minimum requirements or principles that are useful to all IFIs, but recognise that the remit and operation of an IFI should suit the local political culture and circumstances.

With the exception of the United States, where each state has a Legislative Budget Office (LBO), IFIs at sub-national level are rare. In Europe, they have almost all been created at a national level (often following the recent problems in the Eurozone). Within OECD countries, aside from the United States, only Ontario in Canada, Catalonia in Spain and now Scotland in the United Kingdom have established a sub-national IFI.
INTRODUCTION

In evidence to the Finance Committee on 1 May 2013, the Cabinet Secretary for Finance, Employment and Sustainable Growth, after raising questions around the efficacy of some of the Office for Budget Responsibility (OBR) forecasts for Landfill Tax and Stamp Duty Land Tax, stated that:

“The Parliament will be moving for the first time into a territory that we have not previously occupied in relation to the forecasting of revenues, with the exception that the Government, in concert with our local authority partners, makes an assessment of receipts from non-domestic rates income. As a consequence of the land and buildings transactions tax, the landfill tax and the Scottish rate of income tax, we will acquire a set of revenue-raising responsibilities. My view is that Scotland will require an independent forecasting body that can provide independent assessment to the Government and the Parliament of what might be generated as a consequence of those taxes. I am considering how that should be established” (Finance Committee, 1 May 2013, Col 2574)

This kick started a process that has seen the Finance Committee and wider parliament take a keen interest on the issue of a Scottish Fiscal Commission (SFC) remit and operation. In its 2014 Report on proposals for a Scottish Fiscal Commission, the Finance Committee endorsed the creation of the SFC on an interim basis. In June 2014, the Scottish Parliament endorsed by division the Scottish Government’s nominations for appointment to the SFC. The SFC published its first report in October 2014 in response to the Scottish Government’s initial forecasts of revenues accruing from the devolved taxes.

A debate about the powers of the Scottish Parliament has been prevalent in Scottish political life since devolution. Often this has centred on the extent to which a Parliament with significant public spending responsibilities should have revenue raising responsibilities. With the Scotland Act 2012 and now the legislative process underway to implement the Smith Commission powers, Scotland has, and will accrue further, revenue raising powers.

Figure 1 presents the evolution of tax revenues since Scotland Act 1998.
Figure 1: Taxation as a share of devolved expenditure

Note: Based on tax receipts from 2013-14 (Scottish Government 2015a)
Scotland Bill 2015-16 includes the assignment of VAT which is not a devolved tax.

FINANCE COMMITTEE CONSIDERATION OF SCOTTISH FISCAL COMMISSION

As mentioned above, the Finance Committee has undertaken extensive work on the Scottish Fiscal Commission issue and is the lead Committee for the Bill. In response to introduction of the Bill, it issued a call for evidence on 9 October 2015, with a closing date of 6 November 2015.

The Committee’s interest in this issue goes back to 2013. In response to the Scottish Government signalling an intention to establish a Scottish Fiscal Commission in May 2013, the Finance Committee published a report on proposals for a Scottish Fiscal Commission in early 2014. Key recommendations in that report were as follows:

- The Committee recommends that it is essential that the SFC should be independent and seen to be so.
- The Scottish Government should consider the option of inviting the SFC to produce the official macro-economic and fiscal forecasts for Scotland
- However, if the remit is to provide a commentary on Scottish Government forecasts, it is essential that to ensure its independence, the SFC should have no role in producing the forecasts
- The remit should include the option to develop its own forecasting methods and analytical capacity in order to provide a benchmark set of projections
• The role and remit should be clearly set out in legislation with further details in relation to how these are fulfilled set out in a Charter
• The Committee recommends that the SFC should have a right of access (at any reasonable time) to all Scottish Government and Revenue Scotland information and analytical capacity which it may reasonably require for the performance of its duty. The right of access should be established on a statutory basis and the detail set out in a MoU.
• The Committee recommends that it is essential that any contact between the SFC and the Scottish Government and Revenue Scotland should be based on a transparent framework of co-operation. The basis of the working relationship should be set out in a MoU.
• The MoU should include the procedure and timings for the SFC to submit its views to the Scottish Government on its provisional forecasts (prior to publication) and the procedure and timings for dealing with any differences of opinion. It is expected that such views will be made publicly available.
• The Committee recommends that given the OBR will continue to carry out the UK wide forecasts a MoU is agreed between the OBR and the SFC.
• The Committee also recommends that if the SFC will have a role in forecasting SRIT revenues then it will require a similar right of access to all HMRC information and analytical capacity which it may reasonably require for the performance of its duty. This should be set out in a MoU between HMRC and the SFC.
• The Committee notes that there are currently no other organisations within Scotland providing independent fiscal and macro-economic forecasts and the Scottish Government may wish to consider allocating this role to the SFC.

The Scottish Government agreed with many of the recommendations in the Committee report. It took a different view to the Committee in terms of who should be responsible for producing economic and fiscal forecasts arguing that responsibility for this “should lie with the Scottish Government and that primary accountability should be of Ministers to the Parliament”.

If the SFC is to have only a forecast assessment role, the Committee recommended that “the SFC should have no role in producing the forecasts”. The Scottish government agreed “that the SFC should have no role in producing the original forecasts.” The response continued:

"It [the Scottish Government] intends to set this out in establishing the remit of the body, on a non-statutory basis for an interim period and on a statutory basis in due course.

Against that background the Scottish Government does not expect that the SFC would need to develop its own forecasting methods or to have its own analytical capacity in order to provide a benchmark set of projections."

In the first SFC report on Draft Budget 2015-16, an impression could have been taken that the SFC were involved with Scottish Government officials in the production of forecasts, as well as also having the role of assessing the reasonableness of forecasts:

“The Commissioners have held a series of internal meetings and regularly met and corresponded with Scottish Government economists and forecasters. Their first step was to understand the models being used by the officials to predict potential tax revenues. They then moved to examine the Government’s quality of data and information, as well as the working assumptions being applied.

The Commission’s approach can best be described as one of enquiry and challenge, followed by response, followed by further enquiry and suggested improvements. It
examined many issues, ranging from formal mathematical modelling, to the role of judgement in methods of forecasting, to the composition of landfill waste.”

The policy memorandum accompanying the Bill as introduced states in paragraph 16 that “the remit enables the Commission to exert significant influence over the forecasts which underpin the Scottish Draft Budget, as demonstrated by the 2015-16 Draft Budget”. This has prompted the Committee in its call for evidence on the Bill as introduced, to ask for views on whether as an independent body “the Commission should exert significant influence over the forecasts” at the same time as providing an assessment of their reasonableness.

On 2 October 2015, the Deputy First Minister (Scottish Government 2015d) wrote to the Finance Committee to announce the publication of a Framework Agreement between the Scottish Government and the SFC. Paragraph 13 seeks to address Committee concerns around a tension between “influencing” and “assessing reasonableness” of forecasts. It states:

“Communications between the Scottish Government and the Commission will not seek to influence the Commission’s judgements or methodology for producing its assessments and analysis, which are determined independently and free from ministerial involvement.

To inform scrutiny of the SFC legislation, the Finance Committee has also commissioned research by Ian Lienert (2015) to consider key success factors for Independent Fiscal Institutions (IFIs), look at case studies from around the world, before making suggestions for the development of the SFC. This research will be published shortly.

**SCOTTISH GOVERNMENT CONSULTATION**

The Scottish Government (2015b) launched a consultation on a draft Scottish Fiscal Commission Bill in March 2015. The consultation closed on 26 June 2015 and 8 responses were published alongside an analysis report on 11 September 2015 (Scottish Government 2015c). Views were sought on the status of the commission; statutory functions; membership; staff, administration and funding; and independence.

The main point of contention raised in the consultation responses related to the functions of the Commission and independence of the Commission. Four respondents (Finance Committee, CIPFA, the Royal Society of Edinburgh and Taxpayer Scotland) suggested that the SFC should have the function to provide its own devolved tax forecasts, whether in addition to or instead of the Scottish Government producing such forecasts. For example, the Royal Society of Edinburgh said that the Commission “should be able to originate its own forecasts and enquiries”.

On the other hand, the Chartered Institute of Taxation said:

“we note that a question might be raised as to whether the Commission should prepare its own forecasts, and a case could be made for this. However, we do not think this is necessary; in addition it would create a huge demand on the Commission and is perhaps not realistic in terms of capacity and resources.”

Other suggestions were made for a wider role for the SFC to consider the Scottish Budget and scrutinise Barnett consequentials and monitor the Scottish Government’s ability to meet fiscal rules. Others were critical of the absence of an SFC power to determine and initiate its own
programme of work. These issues were considered by the Scottish Government and the draft Bill changed on introduction (more on this below).

A central concern in responses related to the issue of ensuring the SFC’s independence. In its response to the Scottish Government, ICAS state:

“It may be that a more accurate analysis of the SFC as currently proposed is one of impartiality within the Scottish Administration, rather than being an independent commission…..

For example, it is difficult to understand how a body can be independent of Scottish Ministers if it must prepare reports that Scottish Ministers require; must send a copy of any report to Scottish Ministers before laying it before the Scottish Parliament; and can have its functions added to, modified or removed by regulations.”

Audit Scotland’s submission stated that “it may increase the appearance of independence further if the members of the Commission were appointed by Parliament with the agreement of Ministers.” They also make the following point regarding how the SFC is funded:

“Given the importance of the independence and impartiality of the Commission this, would be enhanced if the Commission were funded through the Parliament’s budget rather than through the Government’s budget.”

BILL AS INTRODUCED

CHANGES FROM DRAFT BILL

The Scottish Fiscal Commission Bill was introduced in the Scottish Parliament on 28 September 2015. As a result of the consultation responses, the Bill as introduced contained some changes to the draft Bill in the consultation document.

The power of Scottish Ministers to require reports on other matters is omitted from the Bill as introduced – this section had drawn criticism in the Government’s consultation responses, with some respondents arguing that this was at odds with the stated policy intention of creating a Commission that is structurally and operationally independent of government.

This function is replaced with a broader function allowing the SFC to “prepare reports setting out its assessment of the reasonableness of such fiscal factors as it considers appropriate”. A “fiscal factor” is defined in section 2(4) as “any forecast, assumption or projection which the Scottish Ministers use to ascertain the amount of resources likely to be available for the purposes of section 1 to 3 of the Public Finance and Accountability (Scotland) Act 2000” (those sections make provision for the authorisation of the use of resources by the Scottish Administration and other bodies by the Budget Act for each financial year). Section 2(6) limits this power to areas that “have regard for Government policy, but may not consider what the effect of any alternative policy would be.”

The Bill as introduced also now makes provision for the SFC to prepare and publish an annual report (section 8) setting out its activities during the year.
In line with the OECD best practise and in response to some of the Government’s consultation responses, the Bill as introduced makes a statutory provision for external evaluation of the SFC at least once every 5-year period (section 9).

Section 21 allows the SFC to create committees (this provision was not in draft bill) and appoint members of these committees. Members of a committee may be non-members of the Commission, however there must be at least one Commission member on a Committee. The SFC may, with approval of Ministers, pay committee members.

Also an addition to the draft is section 26 entitled “ancillary provisions” which empowers Scottish Ministers to make ancillary provision by way of regulations and subject to affirmative procedure if they modify an Act.

OTHER BILL PROVISIONS

Section 4 of the Bill provides that the SFC must lay its report on the reasonableness of devolved tax forecasts, etc (under section 2(1)) on the same day as the Draft Budget is presented. Other reports must be laid before Parliament as soon as practicable, but before this happens the SFC “must send a copy of it to the Scottish Ministers” – although no timeframe is given for when the copy must be sent. The requirement to send a copy of any report to Ministers prior to the Parliament was raised as an issue impinging on the SFC’s independence during the Scottish Government’s consultation (ICAS quote above).

Section 5 of the Bill provides regulation-making power to the Scottish Government, subject to the affirmative procedure and following consultation with the Commission, to confer new functions on the SFC or to modify or remove existing ones. This enables the SFC’s remit to be adjusted in future without the need for further primary legislation, but subject to parliamentary scrutiny via the affirmative procedure. This regulation making power does not allow Ministers to remove the SFC’s core functions.

The Scottish Government view is that because this legislation is being written with the Scotland Act 2012 powers in mind, section 5 allows for a more flexible expansion of the functions of the Commission in line with any future increase in financial powers held by the Scottish Parliament. Section 2 by specifically referring to “devolved taxes” appears to allow for an expansion of the number of taxes being assessed by the SFC when proposed Smith powers are conferred (although not income tax, which is not likely to be fully devolved). It is not clear whether it is the intention of the Scottish Government to use section 5 to expand the remit beyond being a “forecasting” body, or for example, to cover something like adherence to fiscal rules.

It could be argued that a more future-proofed mandate could be written into the face of the Bill during its current passage. For example, the Finance Committee has recommended that the Bill is amended to extend the functions of the SFC to include assessing the performance of the Scottish Government in adhering to its fiscal rules (Scottish Parliament Finance Committee 2015a).

Section 6 is designed to safeguard SFC operational independence. It states that in performing its functions, the SFC cannot be directed or controlled by any member of the Scottish Government.

Section 7 provides the SFC a right of access to information held by the Scottish Government, Revenue Scotland, Registers of Scotland and the Scottish Environment Protection Agency (SEPA). It also contains a regulation-making power, subject to the affirmative procedure, to
grant access to information held by other bodies where necessary in future under an expanded SFC remit.

Members of the SFC are to be appointed by Ministers subject to parliamentary approval (section 11) for a period of time chosen by Ministers (section 13). It is the intention that appointments will be staggered to avoid a situation where several members leave office at the same time.

Section 17 makes provision for the Commission, with the approval of Scottish Ministers, to determine the remuneration of SFC members, and for reimbursement of expenses. Further information on proposed remuneration rates are contained in the Financial Memorandum (discussed below).

The SFC is free to appoint its own staff (section 18), but must appoint a Chief of Staff to act as statutory accountable officer for the SFC.

THE SFC REMIT: WHAT THE SFC CAN AND CANNOT DO

All IFIs have at least one of the following three main remits:

- **Assessing and/or preparing macroeconomic and fiscal forecasts.** This can involve: (1) assessing (and, possibly, formally endorsing) macroeconomic and fiscal forecasts of the government, or (2) to prepare the official projections of the economy and fiscal outlook. Such forecasts can be one-year ahead or, most frequently, over a medium-term period (3-5 years). In many cases, the IFI is also charged with (3) assessing long-term fiscal sustainability. Most IFIs assess the official economic and fiscal forecasts prepared by the Government’s “ministry of finance” (MoF) (see figure 2 below).

- **Assessing the fiscal stance and fiscal outcomes:** monitoring and evaluating the forecast fiscal stance and actual fiscal outcome. The IFI may also be charged with making recommendations for correcting fiscal policies – changing revenue and/or expenditure policies – in order to achieve the officially approved fiscal targets.

- **Costing of proposed policy measures** including those of alternative policies. This involves costing new expenditure policies and/or new tax and non-tax measures. In some countries, costing is limited mainly to government proposals. In other countries (e.g., Australia) the costing extends to the costing of political parties’ election manifestos. Since detailed costing work require considerable resources, less than half of the IFIs in the world undertake this work.

The following infographic presents what the SFC (under the Bill as introduced) can and cannot do under the terms of the Bill as introduced.
The proposed remit in the Bill gives the SFC flexibility to pro-actively look at the reasonableness of forecasts for resources/revenue streams available (all taxes, charges, income streams, borrowing). However, it does not allow them to look at the affordability or sustainability of policies (for example, affordability of health care for older people over next 5-10 years) as that includes spending projections not just the “amount of resources” available. As such they cannot, for example produce the equivalent of the OBR’s fiscal sustainability report, public finance forecasts, or its new role in regularly reporting on fiscal risks (including contingent liabilities).

They could, in theory, look at the sensitivity of tax revenues to changes in the economy, but not the level of revenue that might be generated at different tax rates – which would mean they could not produce outputs like the Financial Scrutiny Unit’s (FSU) tax calculators.

The removal of the “power of Scottish Ministers to require reports on other matters” means that in principle, the SFC could reject a request from Ministers (and indeed the Scottish Parliament) to produce a report. This provides the SFC the ultimate decision making power as to which, if any, additional statutory reports it produces (subject to the scope defined in the remainder of section 2).

THEMES FOR SCRUTINY

The Finance Committee launched a consultation on the SFC Bill on 9 October 2015. This set out a series of questions which will frame the Committee deliberations on the Bill.

FORECASTING TAX REVENUES

As already mentioned, a key element of the Finance Committee’s work on the SFC thus far has related to whether or not the SFC is able to produce revenue forecasts. The Scottish Government has argued that official forecasts should be the responsibility of Scottish Ministers “who should be directly accountable to the Scottish Parliament for these forecasts”. The Bill as introduced does not propose that the SFC should prepare its own forecasts, however there is
nothing to stop them preparing or commissioning alternative forecasts should it wish to. Given this, the Committee in its call for evidence has sought views on whether:

- there is a need for independent forecasts in addition to the Scottish Government official forecasts?
- the Commission should have the capacity and resources to make its own forecasts even if its role is to assess the official forecasts?
- the Scottish Government forecasts should be subject to sensitivity analysis carried out by the Commission?
- the Commission should be able to develop its own forecasting methods and analytical capacity in order to provide a benchmark set of projections?

ROLE OF SFC PRIOR TO THE PUBLICATION OF THE SCOTTISH GOVERNMENT FORECAST

Section 4(1) of the Bill as introduced requires the Commission to publish its report on the assessment of the reasonableness of the forecasts for the devolved taxes on the same day as the draft budget is published. Section 4(3) requires the Commission to provide a copy of the report to Ministers in advance of publication, but as mentioned above does not specify when. This means that the Commission will be required to carry out its assessment of the Government’s forecasts prior to publication.

The Commission states on its website that throughout “the year the Commission scrutinises the Scottish Government’s work in developing models and methodologies to produce its forecasts. Its interaction with the Scottish Government informs the Commission’s understanding of the reasonableness or otherwise of their forecasts and its scrutiny improves the methods used by the Scottish Government and thereby the eventual forecasts.”

The Committee has previously recommended that, if the SFC is to have only a forecast assessment role, in order to ensure the Commission’s independence it is essential that it has no role in producing the forecasts (Scottish Parliament Finance Committee, 2014). The Scottish Government responded that it “agrees that the SFC should have no role in producing the original forecasts” and “intends to set this out in establishing the remit of the body, on a non-statutory basis for an interim period and on a statutory basis in due course.”

The policy memorandum states that the Commission is able to “exert significant influence over the forecasts which underpin the Scottish Draft Budget.”

The Committee consultation has sought views on whether:

- the Commission should exert significant influence over the forecasts at the same time as providing an assessment of their reasonableness?
- the Commission should have a role throughout the year in scrutinising the Scottish Government’s work in developing models and methodologies to produce its forecasts?
- the Commission should carry out its assessment of the Scottish Government forecasts either before or after publication?
- the Commission should be required to send a copy of its report on its assessment of the forecasts to Ministers prior to publication and, if so, how far in advance?
ADDITIONAL FUNCTIONS

The Bill has been drafted with Scotland Act 2012 powers in mind, but leaves scope for expanding the remit of the SFC via secondary legislation at some point in the future. Given this, the Committee in its consultation has called for views on whether:

- the Commission should have a wider role in assessing the sustainability of Scotland’s public finances such as adherence to fiscal rules and, if so, should the Bill be amended now to reflect this?
- the Bill should be amended to include assessment of mechanisms for adjusting the block grant?
- there should be a legislative requirement for the Scottish Government to prepare a charter for budget responsibility and the Commission should have a role in assessing adherence to the charter?

RIGHT OF ACCESS TO INFORMATION

Section 7 of the Bill provides the SFC with a right of access at reasonable times to any relevant information from the Scottish Government, Revenue Scotland, SEPA and the Registers of Scotland. The Committee has previously recommended that the right of access should be established on a statutory basis and the detail set out in a Memorandum of Understanding (MoU). The Committee also recommended that it is essential that any contact between the Commission and these bodies should be based on a transparent framework of co-operation and that the basis of the working relationship should be set out in a MoU. The Scottish Government agreed with these recommendations.

The Committee has sought views on:

- is the right of access in the Bill robust enough?
- is there a need to include a requirement for a MoU on the face of the Bill?
- what principles should underpin the working arrangements between the Commission and the Scottish Government and other relevant public bodies?
- the process and timings for the Commission’s engagement with the Scottish Government and how this should be set out in the MoU?
- the process and timings for the Commission’s engagement with HMRC and the OBR and how this should be set out in the MOU?

APPOINTMENTS OF MEMBERS AND STAFF

The Bill provides for Members of the Commission to be appointed by Ministers but only if the Scottish Parliament has approved the appointments. The current Members will form the first statutory Commission, serving to the conclusion of their current appointment terms.

All subsequent appointments to the Commission will be subject to the Public Appointments and Public Bodies etc. (Scotland) Act 2003. Members (including the Chair) can only be appointed for one fixed term. The period of appointment is to be determined by Ministers who may also
remove a member from office under specified conditions\(^1\) but only with the approval of the Parliament. The Commission will determine its own staffing arrangements, with the terms and conditions of employment to be agreed firstly with Ministers.

The Committee has sought views on whether:

- the proposed appointment and removal procedures are adequate for ensuring the independence of Commission Members?
- Ministers should determine the period of office of each Member or should it be specified in the Bill?
- appointments should be for one fixed term or should there be an option for a further term?
- should the Commission determine its own staffing arrangements on the basis of terms and conditions of employment agreed firstly with Ministers?

**COMPARING FISCAL COMMISSIONS**

A key message from the literature on fiscal bodies is that it is very much a case of creating an organisation and remit that suits the political culture of the jurisdiction – the OECD (2014, 2015) literature refers to the importance of “national” as well as “local ownership” and “broad political consensus” for an IFI to be enduring.

However, the OECD has developed a number of minimum requirements or principles that are deemed suitable for “travel” regardless of local circumstances. These are discussed in the Finance Committee (2014) report, OECD (2014, 2015), Lienert (2015) and in the Policy Memorandum accompanying the Bill, and summarised below. In the Scottish context, many of the OECD principles are addressed by the legislation before Parliament. However, comment is made below on some issues that might usefully be raised during the Parliamentary scrutiny of the Bill and is placed in italics.

**PRINCIPLES FOR EFFECTIVE INDEPENDENT FISCAL INSTITUTIONS**

**A clear mandate**

The OECD state that the mandate of IFIs should be clearly defined in “higher-level legislation” or “clearly stated in primary law”. *This principle is met by the SFC Bill’s proposals for the SFC in year 1, but may not be met if the SFC’s remit is expanded via regulations subject to affirmative procedure in the future.*

**Independence and non-partisanship**

There are different elements of independence which should be achieved by an IFI.

**Political independence** – the IFI should serve the interests of all political parties represented in Parliament, without discrimination.

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\(^1\) If a member has not attended meetings for more than three months (without permission for absence), if a members is unable to perform their functions or if Ministers deem them to be unfit for the role.
Independent leadership – leadership of an IFI should be selected on basis of merit and technical competence, without reference to political affiliation.

Independent recruitment and management – the IFI must be free to recruit and dismiss staff. This issue was also raised by the Council for Economic Advisers (CEA, 2013) in its report on Fiscal Rules and Fiscal Commissions, who said that

“an important aspect is to avoid institutional capture whereby those working in an independent fiscal commission are formally – or informally - part of the government (e.g. secondments).”

This idea of “institutional capture” has been raised as a concern in the Scottish Government’s consultation responses – for example, by ICAS who talked of the current Bill proposals as creating an SFC of “impartiality within the Scottish Administration”. It might also be an issue for the SFC to consider during the transition period and beyond when recruiting staff. For example, the SFC currently has a staff member seconded from the Scottish Government.

Operational independence – the IFI should have the “autonomy to determine its own work programme within the bounds of their mandate”.

Financial Independence – resources allocated must be commensurate with the IFI mandate in order to fulfil it in a credible manner. This may have been an issue with the initial £20,000 SFC budget, however this is addressed in the Bill as introduced. The Financial Memorandum to the Bill was produced in conjunction with the SFC.

The literature also suggests that multi-annual funding commitments further enhance an IFI’s independence and provides additional protection from political pressure.

Access to information – it is important for an IFI to have access to all the information and official documentation required to carry out its functions.

Transparency

Governance structures should be clear and laid out in primary law.

There should be transparency in all reports and analysis produced with clear statements of methodology and assumptions published. All reports should be freely available, and media coverage of IFI work should be encouraged.

Accountability and oversight

The IFI should be accountable to the Parliament’s finance committee, other committees and individual members of Parliament. Outputs should be timed to assist in scrutiny of the annual budget.

IFIs should develop mechanisms for external evaluation of their work to be conducted by local or international experts.

TYPES OF INDEPENDENT FISCAL INSTITUTIONS

It is usually the “Ministry of Finance” (MoF) that produces official fiscal forecasts, while other publicly funded agencies, including IFIs, prepare alternative fiscal forecasts. Some countries
with IFIs have arrangements with non-MoF agencies for preparing alternative macroeconomic and fiscal forecasts (for example Ireland, Slovenia and Sweden).

**Figure 2: OECD based IFIs and forecast role**

<table>
<thead>
<tr>
<th>Countries whose IFI prepares the official fiscal forecasts</th>
<th>Countries whose IFI assesses the official fiscal forecasts and may prepare alternative forecasts</th>
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<tbody>
<tr>
<td>Australia</td>
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<td>Austria</td>
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<td>Belgium</td>
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<td>Canada</td>
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<td>Denmark</td>
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<td>United Kingdom</td>
<td></td>
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<tr>
<td>United States</td>
<td></td>
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</table>

Source: Debrun and Kinda (2014) and OECD (2015)

Figure 2 shows that there are only three IFIs in the OECD who produce official forecasts themselves (the UK’s OBR, Belgium and the Netherlands). However, it is common in independent fiscal institutions (IFIs) for there to be other economic and fiscal forecasts to draw on. In responses to the Finance Committee and PQs, the Scottish Government has cited the examples of Sweden and Ireland where the IFI does not produce official forecasts. However, both the Irish and Swedish fiscal bodies have access to alternative forecasts and do not rely solely on Government forecasts. For example, in Sweden, as the Committee has made clear in its Fiscal Framework report, the Swedish Fiscal Policy Council (SFPC) relies heavily on the forecasts of other public bodies in Sweden and, in particular, the forecasts of the National Institute of Economic Research (NIER). The two bodies are located in the same building and collaborate closely. In its 2014 report, the SFPC concluded that
“The Government has a considerably more positive view than NIER and other forecasters of how much the economy can grow before equilibrium capacity utilisation is reached. The Government also has a more optimistic view of how rapidly the public finances will improve the capacity utilisation increases.”

This highlights a point made by Ian Lienert (personal communication) that “whether an IFI has the role of assessing official forecasts or of preparing the official forecasts the IFI needs tools for preparing its own “benchmark” forecast.”

This is because fiscal and other forecasts may be adjusted judgementally. Some studies for European countries\(^2\) indicate that, for fiscal forecasts, official projections – especially for economic growth and government revenues – are biased optimistically, and there is a more than a 50% chance of being too high. To counter systematic and politically motivated forecasting biases, Jonung and Larch (2006) argue that forecasts prepared by an independent agency would be superior to in-house MoF forecasts.\(^3\) The same reasoning applied in the UK prior to the creation of the OBR in 2010, which is independent of HM Treasury, the previous official forecaster.

However it is also possible to systematically produce pessimistic macro-fiscal forecasts. After the debt crisis of the early 1990s, Canada deliberated prepared pessimistic official forecasts for economic growth and budget revenues.\(^4\) The argument for this was it was preferable to have pleasant surprises (actual revenues higher than forecast revenues) than unpleasant surprises (revenues lower than forecast, with pressure to cut expenditure in the following year’s budget). Canada wished to avoid another debt crisis and to begin running fiscal surpluses. Since actual federal revenues were higher than those projected, Canada was able to exit its high indebtedness more quickly than it would have if its projections had been unbiased or, worse, too optimistic, as in several European countries.

**National level IFIs are the norm**

IFIs at subnational level are rare. The United States is a major exception with Legislative Budget Offices (LBOs) in all 50 states. In Europe, IFIs have been established at national level. Lienert (2015) identifies three other countries where subnational IFIs have been established – Ontario in Canada, Catalonia in Spain and now Scotland in the UK.

**FINANCIAL MEMORANDUM**

As mentioned above, the Bill is drafted with Scotland Act 2012 powers in mind. As such, the financial costs associated with the SFC’s creation and contained in the Financial Memorandum (FM) do not relate to the additional powers currently being considered in the UK and Scottish Parliaments. Given this situation, the scope of the functions of the SFC may change and hence the costs of the SFC may change in the future with the accrual of further powers (and changes to functions via secondary legislation).

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\(^2\) For an overview of fiscal forecasting experience in Europe, see Leal et al (2007).

\(^3\) Hughes Hallett (2003) had earlier proposed creating a Sustainability Council (an independent panel of experts) for enforcing fiscal rule compliance in the euro area.

\(^4\) Canada’s “MoF” took the consensus forecasts for GDP and interest rates and, using a macro-fiscal model, adjusted these downwards and upwards respectively, to prepare a pessimistic scenario – especially for the revenue projections of the federal budget. For details, see Bayoumi et al (2007).
The Bill assumes that the SFC will be operational on a statutory basis from 1 April 2017. The FM estimates that costs arising from the Bill will total £850,000 per annum from 2017-18. This compares with the Irish Fiscal Advisory Council (IFAC) which has an annual budget of not more than €800,000 (approximately £580,000), set out in the legislation for IFAC, adjusted for inflation – in 2015, IFAC’s budget ceiling was set at €823,360 (approximately £600,000) (IFAC, 2015b).

The FM also provides cost estimates for the SFC in the transition period from its current non-statutory status to statutory body from April 2017.

Of the costs envisaged in the first statutory year of operation, over half is to meet costs of staff and members (54%) with the remaining 46% being for non-staff costs.

**Figure 3: Year 1 costs by category, £’000s**

<table>
<thead>
<tr>
<th>Category</th>
<th>£’000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-staff costs</td>
<td>393</td>
</tr>
<tr>
<td>Staff costs</td>
<td>345</td>
</tr>
<tr>
<td>Member costs</td>
<td>112</td>
</tr>
</tbody>
</table>

**STAFF COSTS**

Staff costs in year 1 are estimated at £345,000 and are based on there being 6 full-time equivalent staff (an average of £57,500 per person) providing “governance, strategic, operational and technical support to members in discharging the Commission’s functions”. By way of comparison, the staffing complement in IFAC is 5 full-time equivalents, comprising one administrator and four economists.

The FM contains the Government’s best estimate of the total staffing resource which the statutory SFC is likely to require, however, it will be for the Commission to decide its staffing structure in “due course”. Staff costs are based on the Scottish Government average staff cost for 2014-15, uprated for inflation and include employer pension contributions, and employer National Insurance contributions.

Staff costs are split as follows.
Table 1: Estimated staff costs £’000s

<table>
<thead>
<tr>
<th>Posts</th>
<th>2017-18</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief of Staff</td>
<td>100</td>
<td>Presumably 1 post costing £100k (includes salary, pension, employer National Insurance contributions)</td>
</tr>
<tr>
<td>Analytical and Strategic support</td>
<td>165</td>
<td>Presumably 3 posts costing £55k per post (including pension, employer NICs)</td>
</tr>
<tr>
<td>Corporate and member support</td>
<td>80</td>
<td>Presumably 2 posts costing £40k per post (including pension, employer NICs)</td>
</tr>
<tr>
<td>Total</td>
<td>345</td>
<td></td>
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</tbody>
</table>

MEMBER COSTS

Member costs are estimated at £112,000, which is split into £104,000 for member remuneration and £8,000 for expenses. The daily rate for the Chair of the Commission is assumed to be £465, with a daily rate of £331 for other members. Costs are not pensionable, and assume a time commitment of 1.5 days per week, and employers’ national insurance.

NON-STAFF COSTS

The non-staff cost include provision for accommodation costs of £125,000 should the SFC opt to relocate from their current host, Glasgow University. The £125,000 figure includes commercial rents, rates and utilities, but does not include any payments that might be required to locate and secure the accommodation, for example advance rental and associated legal advice which are included in the transition costs for 2016-17.

£108,000 is provided for the provision of external research that the SFC may require to buy in. It is based on average daily rates being paid of £600, implying 180 days of work.

TRANSITION COSTS

Transition costs for the years prior to the SFC becoming a statutory body (2015-16 and 2016-17) are included. Costs cover estimates for pay and expenses of a team of 6 full-time equivalent staff tasked with delivering corporate services, including IT and accommodation, and the establishment of operating procedures, HR and governance. These costs total £180,000 in 2015-16 and £360,000 in 2016-17.

Non-staff transition costs are estimated at £15,000 in 2015-16 and £30,000 in 2016-17 and include estimates for costs associated with searching for property, and legal advice on subsequent property leases.

COMMITTEE CONSULTATION

The Committee has sought views on the following areas in its Bill consultation:
• the overall costs set out in the FM;
• the number of staff;
• the remuneration and assumed time commitment of Commission members;
• the likely costs of expanding the Commission’s role to include an assessment of key aspects of Scotland’s fiscal framework such as the Scottish Government’s adherence to fiscal rules.

SOURCES


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www.scottish.parliament.uk
Finance Committee

26th Meeting 2015 (Session 4), Wednesday 28 October 2015

Pre-Budget Scrutiny of Scottish Rate of Income Tax

1. As part of its consideration of the Scottish Government’s draft budget 2016-17, the Committee agreed to assess the preparedness of HMRC and employers for the implementation of the Scottish Rate of Income Tax (SRIT) on 1 April 2016.

2. On 27 August 2015 the Committee wrote to Edward Troup, Tax Assurance Commissioner and second Permanent Secretary at HMRC inviting him to provide oral evidence to the Committee and to provide a written update in advance.

3. The topics the Committee sought an update on were:
   - Progress regarding changes to HMRC’s IT systems required to distinguish Scottish taxpayers from those in the rest of the UK;
   - The identification of Scottish taxpayers, including the possibility of using third party data;
   - The most recent version of HMRC’s risk register for the programme;
   - HMRC’s plans for contacting taxpayers to notify them of their liability to pay tax at the Scottish rate in light of the expected later than usual publication of the draft budget;
   - Work undertaken to identify and deal with taxpayers who may attempt to artificially manipulate their Scottish taxpayer status to take advantage of different rates between Scotland and the rest of the UK;
   - The readiness of HMRC staff to deal with queries regarding the SRIT and HMRC’s estimates of the likely volume of such enquiries;
   - The expected impact of the SRIT on employers’ payroll and pension systems and engagement with them to ensure they are prepared for the changes;
   - The cost of implementing SRIT and current estimates of its annual running costs; and
   - The findings of the OGC Gateway review expected to take place in summer 2015.

4. The written submission from HMRC which includes an up to date SRIT Risk Register can be found at Annex A of this paper. A copy of the previous SRIT Risk Register from October 2014 can be found at Annex B.

Alison Wilson
Senior Assistant Clerk to the Committee
HMRC update on Scottish rate of Income Tax for Finance Committee

Readiness
1. HMRC is confident that it will be ready for the implementation of the Scottish rate of Income Tax (SRIT) in April 2016. Good progress has been made in relation to amending HMRC’s IT systems – the first phase of development has been completed, which will allow HMRC to identify Scottish taxpayers. A second phase of development, dealing with changes to the PAYE system, is underway. Further phases will then follow to cover amendments to the Self Assessment system and the Relief at Source (RAS) process for pensions.

2. Alongside this, HMRC has also been working to ensure its staff are ready for the implementation of the SRIT. Detailed guidance is being prepared to assist contact centre staff in dealing with queries from customers and this will be in place ahead of the main issue of letters to potential Scottish taxpayers planned for December of this year. Customers will be able to amend their address details using the facility for this on the GOV.UK website.

3. In addition to amending its own systems, HMRC has also produced detailed specifications for employers, payroll software providers and pension scheme administrators covering the changes that those organisations will need to make to their own systems. HMRC does not anticipate this being a significant change for employers. As a result of the need to comply with the Scottish Variable Rate legislation, employers should already have some of functionality required for SRIT built into their systems and, additionally, HMRC will not require employers to identify Scottish taxpayers among their workforce – HMRC will advise employers who should be taxed at the SRIT via PAYE coding notices and the employer’s responsibility will be to operate this code, if necessary using a different set of tax tables.

4. However, to support the implementation of the SRIT, HMRC has been carrying out a comprehensive programme of communications activity, such as publishing written material on GOV.UK, featuring detailed articles about the SRIT implications for employers in its Employer Bulletin and appearing at a number of face-to-face stakeholder events, including the annual conference of the Chartered Institute of Payroll Professionals earlier this month. Further details on communications activities were included in HMRC’s update to the Committee of 28 August 2015.

5. Guidance for customers will also be published shortly on GOV.UK. This includes basic guidance, for customers with straightforward affairs, and more detailed, technical guidance for customers with more complex circumstances, for example, having more than one place of residence.
6. Major programmes and projects in central government are subject to OGC (Office of Government Commerce) GatewayTM Reviews, which provide assurance of the key stages so they can progress successfully to the next stage. In May 2015, the OGC undertook a Gateway 3 strategic assessment of the project to implement the SRIT. This stated that successful delivery of the Project was feasible and identified key areas for the Project to focus on, including identifying Scottish taxpayers and communications. The report also recognised that the project team had embedded a successful approach to collaborative working, which many interviewees commented was exceptional in their experience of project work. This report will be published in 2016.

**Identifying Scottish taxpayers**

7. An individual’s Scottish taxpayer status is determined by the location of their main place of residence for the majority of the tax year. If this is in Scotland, they will be a Scottish taxpayer. The strategy for identifying Scottish taxpayers is based around address information held on HMRC’s systems. In order to assess the accuracy of the data it holds, HMRC has carried out exercises to compare this against third party data held elsewhere.

8. The address data HMRC holds for taxpayers has been compared with other address databases (e.g. the Post Office) – in around 85% of cases HMRC held an address for a taxpayer that could be matched against an address held elsewhere. Analysis by HMRC of those cases where a match could not be achieved suggests that the vast majority of these individuals are living at a different address in Scotland indicated by, for example, a link to a local employer – this would mean that they were still Scottish taxpayers and would be treated as such by HMRC until notified otherwise. By this means we have established evidence that about 98% of the taxpayers for whom HMRC holds Scottish addresses are correctly identified as likely to be Scottish taxpayers.

9. HMRC plans to write to taxpayers for whom they hold a Scottish address in December to inform them that they will be treated as a Scottish taxpayer and advise them of how to report a change of address. HMRC will also undertake additional communications and publicity activity to raise awareness of the SRIT and remind customers of the importance of notifying HMRC when they move house. The communications activity is likely to be a mix of proactive communications, offering material to the media and stakeholders, to inform them about HMRC’s activity regarding SRIT and use their assistance in reinforcing our messages, combined with a limited amount of paid for marketing to target specific customer groups to increase the confidence that we have reached the target audience in a way that represents the best value for money. This could include oil and gas sector workers, the fishing industry and students. Additionally, HMRC will write to taxpayers for whom a Scottish correspondence address (as opposed to the main address) is held, as these taxpayers clearly have an established link with
Scotland and it will be important to confirm which of these addresses held is their main place of residence.

10. HMRC also has undertaken extensive work to ensure that people who live in Scotland but do not appear on our current records with a Scottish address can be included in the planned communications. This has included using third party data that could be used to corroborate HMRC address data. This is not straightforward, as there is no single set of address data that is constantly updated at all times. HMRC has worked with a third party data supplier (Transactis) as part of this work to assess the accuracy of its data.

11. Transactis has undertaken a comparison of HMRC’s UK wide data with the Scottish Electoral Register. The scan has produced a list of individuals for whom HMRC holds an address elsewhere in the UK, but who appear at a Scottish address on the electoral register. HMRC will be writing to these individuals separately to confirm whether they are Scottish taxpayers.

12. HMRC has also worked with the Scottish Government on the possibility of being able to access address information from NHS Scotland records. This is not available at this point in time and HMRC is satisfied that it can implement and operate the SRIT without access to this data. HMRC will continue to consider different sources of data to best maintain the Scottish taxpayer population.

13. All this should give confidence that there will be a good starting point for the Scottish rate. But it will still be up to taxpayers to tell HMRC their correct address, and HMRC will be reminding them to do so later this year, when writing to all those for whom we hold Scottish addresses to tell them about the Scottish rate. As set out above, taxpayers are already able to amend their address using GOV.UK and this will also be possible using the personal tax account, to be rolled out next year.

14. From a financial perspective, the system for adjusting the Scottish Government’s block grant to take account of Scottish Income Tax receipts is designed to minimise the level of financial risk to which the Scottish Government could be exposed if taxpayer status is not determined correctly.

15. In particular, the transitional arrangements which will be in place for the first 2-3 years of operation of the SRIT will allow further time for HMRC, individuals and employers to become accustomed to operating the system – during this time, the block grant adjustment will be recalculated each year to reflect the amount of revenue generated by a SRIT of 10%. So, if taxpayer status is determined incorrectly, the impact on Scottish Government tax revenues will be offset by the block grant adjustment. The simplest scenario is where the Scottish Parliament sets a SRIT of 10% during this
period, as the reduction in the block grant will exactly offset the tax revenue generated.

16. It is therefore important that HMRC continues to maintain the accuracy of its address data once SRIT is in place (both to ensure the Scottish Government receives the correct level of tax receipts, and to ensure that taxpayers pay the correct amount of income tax). HMRC’s activity here will include encouraging taxpayers to notify them of changes of address and cross-checking against other sources of information. This would also involve making use of data received from other sources. HMRC receive address details from employers and DWP and we will be able to use this information as a basis for approaching customers proactively to confirm their current main place of residence, if we suspect that they have moved and not notified us.

17. If the Scottish rates diverge from the rates which apply elsewhere in the UK, there will be an incentive for taxpayers to claim that they live on one side of the border, when they live on the other. HMRC will use external data to highlight changes of address, and identify high risk cases such as mobile employees and taxpayers with high incomes and will undertake appropriate compliance activity to address any risks that arise. HMRC is already undertaking preparatory work in these areas. Additionally, it is worth noting that, as HMRC continues to work on reducing the overall tax gap and bring more individuals into the tax system, this will increase overall revenues, including those paid at the Scottish rate.

Costs
18. The UK Government’s third annual implementation report on the Scotland Act 2012 (published in March), confirmed that the cost of implementing the SRIT was now estimated to be in the region of £30m-£35m (made up of £10m-£15m of IT costs and £20m of non-IT costs). This remains the current estimate.

19. The previous estimate for the annual running costs was £4.2m per year – this was the original estimate prepared in November 2010 when the Scotland Bill was introduced to Parliament. Since then, further work has been carried out to refine this figure. As outlined in previous evidence to the Committee, HMRC has always anticipated that, if the Scottish and UK rates diverge, there will be an increase in running costs. The customer insight research supported this, by clarifying that Scottish taxpayer customers would be more likely to call HMRC if the Scottish rates were higher than the UK rates and as set out above a divergence in the rates would increase the amount of compliance activity required.
20. If the SRIT is set at 10%, the running costs are estimated to be £2m-£2.5m. If the rate is set at a figure other than 10%, the figure is estimated to be £5.5m-£6m. These figures do not include costs arising from the long-term solution for RAS pension schemes, which will be implemented in 2018-19, as the details of this solution are still under development.

HM Revenue & Customs

21 October 2015
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<thead>
<tr>
<th>Risk Title &amp; Description</th>
<th>Owner</th>
<th>Control Effectiveness</th>
<th>Previous Month</th>
<th>Previous Month</th>
<th>Current Month</th>
<th>Trend</th>
<th>Forecast</th>
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There is a risk that - the degree of concurrent changes across HMRC results in a cumulative impact on key HMRC events and products (such as the Basic PAYE tool).

There is a risk that - other organisations publish information about SRIT that is incorrect, misleading or wrongly timed, leading to customer confusion and contact.

There is a risk that DWP and HMRC are not joined up in their delivery of SRIT.

There is a risk that communication products designed to inform the UK population in relation to SRIT (Scottish and non-Scottish taxpayers) are not delivered to time and specification.

There is a risk that the Scottish Parliament does not agree the Scottish Government's Scottish Rate Resolution, resulting in a late change of rate.

There is a risk associated with the current uncertainty surrounding the content and timing of the notification letter which impacts on customer experiences and HMRC resources.

In the event that the Scottish Government varies the rate of SRIT in 2016/17 or 2017/18, so that the interim RAS solution has to be implemented, there is a risk of associated customer contact arising.

Specialist PT Pensions do not have sufficient specialist resources available to them to support the RAS project adequately.
There is a risk that pension providers may not provide NINOs on all of their returns, making it difficult for HMRC to accurately match RAS accounts with HMRC systems. This is caused by a mismatch between DWP legislation on auto-enrolment for pension schemes, and HMRC regulations on the provision of information by pension providers in relation to RAS. It appears that the former does not require an individual scheme member to supply a scheme administrator with a NINO. However, HMRC regulations enable us to require scheme administrators to supply the NINO of each scheme member (except special cases).

There are resource pressures on the RAS project team which could negatively impact the effective management of the project in the short- to mid-term.

There is a risk of reputational damage to the Department caused by reconciling pension RAS against tax accounts, which may not be well received or understood by taxpayers.
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<td>There is a risk that - the Project does not clearly communicate with and provide support to, the new Scottish taxpayer community; leading to potential confusion, non-compliance and additional customer contact.</td>
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<td>Finance Manager</td>
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