7 June 2013

Dear Iain

Thank you for your letter of 7 May setting out the Public Audit Committee’s queries about the roles and responsibilities of Revenue Scotland and the Scottish Environment Protection Agency in administering Scottish Landfill Tax following its introduction in April 2015 and about the anticipated audit and risk management arrangements.

I take each of the Committee’s questions in turn below:

Audit arrangements and accountability

Q. Which organisation will include the landfill tax accountable officer? Will there be one accountable officer for administration and one for collection of the tax?

A. The accountable officer of Revenue Scotland will be responsible for Scottish Landfill Tax. We expect the Scottish Landfill Tax Bill and the Tax Management Bill to enable Revenue Scotland to delegate the exercise of any of its functions to SEPA. However, we do not propose that this power would enable Revenue Scotland to delegate its accountability for the tax. That accountability will therefore be retained by Revenue Scotland.

Q. Will SEPA’s responsibilities with regards landfill tax be subject to audit by Audit Scotland?

A. Both SEPA and Revenue Scotland will be subject to audit by Audit Scotland (or an auditor working on behalf of the Auditor General for Scotland) regarding their respective responsibilities for Scottish Landfill Tax.
Q. Will SEPA publish annual information on its performance in collecting the tax and the levels of tax collected?

A. Revenue Scotland will provide operational and performance information on the running of Scottish Landfill Tax, including information from SEPA. Revenue Scotland intends to establish an agreement with SEPA that will include arrangements on the provision and publication of management and performance information. Revenue Scotland will have a formal agreement with SEPA on the delegation of responsibilities.

Q. Where does the Scottish Government envisage responsibility will lie between the two organisations with regards the delegated functions? For example, should there be lower levels of tax collected than anticipated (and the Committee notes the revenue forecasts of the Scottish Government compared with those of the OBR), would Revenue Scotland or SEPA ultimately be accountable?

A. Accountability for running Scottish Landfill Tax will lie with Revenue Scotland. Within any limits on delegation imposed by the tax management legislation, which as you know will come before Parliament later this year, it will be for Revenue Scotland to decide which of its functions will be delegated to SEPA. Planning on this is at an early stage and will not be finalised until the legislation is in place, but Revenue Scotland will have early discussions with Audit Scotland as part of the planning process. The ultimate responsibility for the collection of tax will lie with Revenue Scotland and the delegation of any particular areas of work, such as activity on compliance, will be set out clearly. In the interests of transparency, I have asked that the final agreement on delegation from Revenue Scotland to SEPA be a public document.

Q. How will SEPA manage its responsibilities on landfill tax alongside other proposed changes to the organisation e.g. in the Regulatory Reform Bill?

A. SEPA has set up a Project Board to organise and manage the proposed Landfill Tax responsibilities and employed a Principle Policy Officer and Project Manager to specifically aid the regulatory development and implementation of the Project. An implementation team has been established by SEPA to address the organisational implications of the Regulatory Reform Bill. Both of these operations are overseen by the Head of National Operations, John Kenny, to ensure consistency and ease the development of organisational change in relation to these projects.

Risk management

Q. With regards the introduction of the proposed landfill tax, what does the Scottish Government consider to be the key risks associated with establishing Revenue Scotland and adding responsibilities to SEPA?

A. The Government has identified a number of risks associated with the establishment of legal and administrative arrangements for a new tax system. These include the potential for tax avoidance activity, higher than expected administrative and collection costs and the under-collection of tax. We also require to manage risks in terms of the development of appropriate information technology and other systems for collecting the tax, and the resources required. Planning is at an early stage. However, robust programme management arrangements between Revenue Scotland and SEPA are in place, and these will include a range of mitigating actions in relation to the risks associated with development of information technology systems required to administer the tax.
This will include assurance through the SG’s ICT Investment Plan Process, put in place following the Auditor General for Scotian’s report on ‘ICT contracts: an audit of three public sector programmes’.

Q. What are the outline plans and approaches of Revenue Scotland and SEPA in preparing for the collection of this tax?

A. Revenue Scotland has established a Tax Administration Programme, which is a joint programme of work between Revenue Scotland, SEPA and Registers of Scotland (recognising our intention to work with RoS to collect the other devolved tax, Land and Buildings Transaction Tax, which the Committee has considered previously).

In terms of tax administration, the key strands of work – against which we are developing appropriate milestones – are as follows:

- Staffing (Revenue Scotland’s initial staffing complement is fully in place from May 2013)
- Agreement on the management of data between RS, Registers of Scotland and SEPA, which will underpin decisions on ICT development
- Process mapping
- Initial estimates of our longer-term staffing expectations in the three organisations.

Q. What are the Scottish Government’s landfill tax forecasts; do these differ from those of the OBR and, if so, why; and what would be the implications for it and its Purpose (as set out in the Policy Memorandum) of there being lower tax collection compared with the forecasts of the OBR?

A. The Scottish Government provided estimates of forecast Landfill Tax receipts in the Financial Memorandum to the Bill. Within limits of forecasting error, the Scottish Government accepts the 2015-16 forecast of £107m provided by the Office of Budget Responsibility.

Thereafter, as indicated in the Financial Memorandum, the Scottish Government expects receipts from Landfill Tax to fall by 62% in the 10 year period from 2016-17 to 2025-26. The OBR estimates broadly steady receipts to 2017-18. OBR’s forecasts are based on projections of current trends in Landfill Tax receipts at a UK level. The Scottish Government forecasts are based on expected future trends in disposal to landfill in Scotland.

The Scottish Government is discussing with the UK Government the block grant adjustment relating to the devolved taxes. The net effect of Landfill Tax on the Scottish Budget depends on both actual receipts and the block grant adjustment.

I trust that this response deals with the Committee’s queries.

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