



The Scottish Parliament
Pàrlamaid na h-Alba

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

AGENDA

16th Meeting, 2017 (Session 5)

Thursday 15 June 2017

The Committee will meet at 8.50 am in the James Clerk Maxwell Room (CR4).

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

2. **Administration of the Scottish Income Rate of Income Tax 2015/16:** The Committee will take evidence from—

Jim Harra, Additional Accounting Officer for Scottish Income Tax & Director General Customer Strategy & Tax Design, and Sarah Walker, Deputy Director Devolution, HMRC.

3. **Post-legislative scrutiny: the National Fraud Initiative:** The Committee will take evidence from—

Derek Mackay, Cabinet Secretary for Finance and the Constitution, and Brian Taylor, Senior Risk Manager, Scottish Government.

4. **Administration of the Scottish Income Rate of Income Tax 2015/16:** The Committee will consider the evidence heard at item 2 and take further evidence from—

Caroline Gardner, Auditor General for Scotland;

Mark Taylor, Assistant Director, Audit Scotland.

5. **Post-legislative scrutiny: The National Fraud Initiative:** The Committee will consider the evidence heard at item 3.

PAPLS/S5/17/16/A

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The papers for this meeting are as follows—

Item 2

Written Submission

PAPLS/S5/17/16/1

PRIVATE PAPER

PAPLS/S5/17/16/2
(P)

PRIVATE PAPER

PAPLS/S5/17/16/3
(P)

Item 3

National Fraud Initiative - post-legislative scrutiny

PAPLS/S5/17/16/4

PRIVATE PAPER

PAPLS/S5/17/16/5
(P)

Public Audit and Post-legislative Scrutiny Committee

16th Meeting, 2017 (Session 5), Thursday 15 June 2017

Administration of the Scottish Rate of Income Tax 2015/16

Introduction

1. The accounts of HM Revenue and Customs (HMRC), who are responsible for collecting and administering the Scottish Rate of Income Tax (SRIT), are audited by the National Audit Office (NAO) on behalf of the Comptroller & Auditor General.
2. At its meeting on 23 March 2017, the Committee took evidence from the Auditor General for Scotland and the NAO on its report entitled [Administration of the Scottish Rate of Income Tax 2015/16](#)¹.
3. The Committee agreed to take evidence from HMRC at a future meeting. HMRC's written submission is attached as an annex to this paper.

¹ http://www.scottish.parliament.uk/S5_Public_Audit/C_and_AG_report.pdf

HMRC written submission

Implementing and operating the Scottish income tax powers

The Scottish rate of income tax, which applied for the 2016/17 tax year, was replaced, from 6 April 2017 by the further Scottish income tax powers devolved by The Scotland Act 2016.

HMRC made all the necessary changes to its IT systems and processes needed for the successful introduction of these further Scottish income tax powers on 6 April 2017. This involved making changes that allow for the flexibility introduced by the further powers to set both rates and thresholds, including changes to PAYE systems; advising software developers of the technical changes required to support the production of new payroll software; and carrying out communications to support individuals, employers, software developers and agents. Work is now focussed on changes to our Self Assessment systems by April 2018 ahead of the receipt of Self Assessment returns for the 2017/18 tax year.

Despite the short timeframe available to do so, HMRC also successfully accommodated the higher rate threshold set by the Scottish Parliament in February 2017 within its annual PAYE coding exercise. This provided employers with all the information necessary to ensure that the correct tax was paid by their Scottish employees from day one of the new 2017/18 tax year.

HMRC has carried out a range of checks with employers and individuals since the introduction of the Scottish rate of income tax to provide assurance that employers are correctly using Scottish tax codes and individuals are continuing to receive them where appropriate.

Relief at source pension schemes

If there is a divergence between the Scottish and UK basic rates of tax then Scottish taxpayers will be due different rates of relief on their pension contributions from taxpayers elsewhere in the UK. This creates particular challenges for giving relief under the relief at source (RAS) provisions, where the pension scheme claims from HMRC the relief on pension contributions made by its members and then allocates that relief to members' pension pots. There is no issue for PAYE schemes where relief is automatically deducted at the correct rate.

HMRC has made good progress working with the pension industry to devise an IT solution that will enable pension providers to claim relief from HMRC at the correct rates for Scottish taxpayers. A solution has been identified and work is now underway to ensure it is in place in time for April 2018.

An interim solution has been in place since April 2016 whereby HMRC would have managed the consequences if basic rates had diverged before April 2018.

Costs

Implementation costs

HMRC, working closely with the Scottish Government, has continued to reduce the costs associated with implementation of Scottish income tax powers. The latest estimate for implementing Scottish income tax has reduced further to £20-25 million for the main changes underpinning the Scottish rate and £2.6 million for subsequent changes specifically linked to the further powers.

Running costs

While final figures are not yet available, HMRC estimates that total running costs for 2016/17 were £0.2 million and those for 2017/18 will be approximately £1.5 million. HMRC and the Scottish Government are currently developing a framework that will support the identification and quantification of estimates for business as usual running costs.

More detail on costs can be found in the UK Government's Fifth Annual Report on the Implementation and Operation of Part 3 (Financial Provisions) of the Scotland Act 2012²

Identifying Scottish taxpayers

Initial failure to identify all Scottish taxpayers

Issues with the identification of Scottish taxpayers on our systems led to 420,000 taxpayers not being picked up by the initial scan to identify Scottish taxpayers and thus not receiving a notification letter in 2015.

This omission was not caused by HMRC holding incorrect address details but because the scan of HMRC address records failed to pick up all formats in which Scottish addresses were recorded on HMRC IT systems. The issue was resolved within weeks of the start of the 2016/17 tax year and Scottish tax codes were issued in respect of all relevant taxpayers, so there was no impact on any taxpayer or the Scottish Government. All records with Scottish postcodes are now flagged, regardless of address format.

Testing

HMRC has subsequently carried out significant checks to provide assurance that all HMRC records holding a Scottish address, in whatever format, are now flagged with a Scottish identifying marker:

² Available at: <https://www.gov.uk/government/publications/fifth-annual-report-on-the-implementation-of-the-scotland-act-2012-and-first-annual-report-on-the-scotland-act-2016>

- HMRC has analysed payroll data with the Scottish Government and other large Scottish employers;
- HMRC has analysed a sample of live records to check that Scottish markers were in place across a range of scenarios based on potential customer circumstances;
- HMRC has carried out a series of checks with taxpayers and stakeholder groups who had alerted it to the original issue, to establish that the issue had been corrected for the individuals concerned.

This activity has provided reassurance that HMRC has successfully flagged all Scottish address records on its systems with a Scottish marker.

What this means for overall numbers of Scottish taxpayers

Despite the identification of an additional 420,000 potential Scottish taxpayers, HMRC remains confident that the Scottish taxpayer population is within its estimated range of 2.5 million to 2.6 million individuals.

This is because not all those identified who are taxed under Self Assessment will have sufficient income to be taxpayers, as they return levels of income below the personal allowance. Although 2.45m people were sent a letter in December 2015, this included all those with a live Self Assessment record, as it is not possible to accurately predict an individual's income in advance.

Historically, around 30-35% of Self Assessment payers have income below the personal allowance and thus are not taxpayers. When one removes this proportion of Scottish Self Assessment taxpayers from the 2.45m individuals who received a notification letter and adds the 420,000 who did not, one is left with a population of 2.6m – consistent with HMRC's previously estimated range.

Accuracy of HMRC data and how we will maintain it

Accuracy of HMRC address data

There is no definitive record/data set of Scottish residents against which to test HMRC's success in identifying Scottish taxpayers.

However, HMRC has undertaken a wide range of checks of its address data against third party data sets to assess accuracy and has taken follow up action where a potential discrepancy was identified.

This activity has enabled HMRC to corroborate, with external sources, the tax status of 98-99% of the individuals for whom it holds a Scottish address. This does not mean that HMRC records are 1% 'wrong', it means 1% of HMRC address records are uncorroborated by third party data sets - addresses held by HMRC may be more up to date than the third party data.

Addressing data quality issues

HMRC has also undertaken considerable activity to rectify deficiencies identified in some taxpayer address records, which did not allow Scottish taxpayer identification (e.g. a record with a missing/partial postcode).

The department has undertaken detailed analysis of all its data to identify such records (for example, it has identified and rectified 55,000 instances of missing/partial postcodes) and has put in place arrangements to manually update the records, enabling, where the address is in Scotland, a Scottish taxpayer identification marker to be set.

Maintaining up-to-date address data

Despite assurance of current levels of accuracy, and evidence that the majority of customers do update HMRC when they move address, HMRC is not complacent – the Scottish taxpayer address base is constantly changing. HMRC is therefore committed to regularly undertaking further future checks of its data against that of third parties to ensure that confidence in HMRC address data is maintained.

Public Audit and Post-legislative Scrutiny Committee

16th Meeting, 2017 (Session 5), Thursday 15 June 2017

National Fraud Initiative – post-legislative scrutiny

Introduction

1. At its meeting on [1 December](#) 2016, the Committee took evidence from Audit Scotland on the National Fraud Initiative (NFI). The Committee agreed to consider the legislation underpinning the NFI as part of its post-legislative scrutiny remit, and to begin its consideration by issuing a call for evidence.
2. The Committee issued a [call for evidence](#) on 1 February 2017. It was brought to the attention of every public body in Scotland, academics and audit bodies in the other parts of the UK, and asked for responses to three key questions:
 - What have been the benefits, financial and otherwise, of putting the NFI on a statutory footing?
 - Could the legislation be strengthened in any way?
 - Should participation in the NFI be improved? Are there any bodies who do not participate in the NFI who should do so?
3. At its meeting on [1 June](#) 2017, the Committee took evidence from two panels on the NFI. These sessions highlighted areas for further consideration, such as whether further data sets could be included to improve the effectiveness of the exercise.
4. At this week's meeting, the Committee will take evidence from the Cabinet Secretary for Finance and Constitution. The Scottish Government's submission is attached as an annexe; all the submissions received can be read [here](#).

Scottish Government written submission

The Scottish Government has a zero tolerance approach to fraud and our participation in the NFI exercise forms an important part of our collaborative approach with the wider public sector. Working in partnership is a key objective in our approach to counter fraud and the Scottish Counter Fraud Forum, with its cross-sector membership including local government, public bodies and Audit Scotland, is a vehicle through which we are working to improve how we protect public resources now and in the future.

We recognise the contribution of the NFI as a major counter fraud exercise in detecting and preventing fraud and error as highlighted in the latest NFI report. We continue to use the NFI to review the robustness of our financial data and effectiveness of our systems. Complimentary to the broader purpose of the NFI the Scottish Government is taking a number of other actions, with an enhanced focus on prevention and I have provided further details in the attached annex.

The Scottish Government supports the data sharing opportunity the statutory footing of the NFI provides. This legal gateway benefits public bodies in enabling sharing of data across organisational boundaries highlighting our priority to prevent fraud by removing silos, working across organisations to protect public resources. Through our engagement with the wider public sector we will continue to encourage active participation in the NFI to ensure NHS, central and local government bodies can benefit from sharing data to combat fraud and error.

Scottish Government Finance officials are working with the Cabinet Office through the NFI Steering Group on the work they are leading to improve the NFI products and performance metrics. This improvement work aims to ensure NFI tools continue to offer the opportunity for effective participation by bodies and address the increasingly sophisticated approaches of fraudsters. We are engaging with this review in collaboration with members of the Counter Fraud Forum, offering suggested improvements relating to how the NFI tools can be developed to offer more real time data sharing as well as enable improved referrals when matches are identified.

The Scottish Government will continue to participate in this work to explore how best the NFI tools can be developed to assist in targeting emerging fraud risks and increase effective participation for public sector organisations in support of the wider prevention agenda. I hope this information is helpful in supporting the Committee's work.

Sincerely,

GORDON WALES

ACTING DIRECTOR GENERAL FINANCE

Scottish Government Prevention Activity

1. The Scottish Government, in partnership with the Counter Fraud Forum produced the first pan-Scotland, strategic approach to fighting fraud, [Protecting Public Resources](#). The strategy is designed to **raise awareness of the continued importance of fighting fraud, bribery and corruption**; provide a basis to **improve fraud action plans and strategies in individual organisations**; and **ensure a consistent preventative approach is being taken to counter fraud** across Scotland.

2. The Forum is a group chaired by the Scottish Government's counter fraud champion, the Director of Procurement & Commercial, and includes membership from COSLA, DWP, Trading Standards, Scottish Local Authorities Investigators Group & Chief Internal Auditors, Audit Scotland, the Crown Office and Procurator Fiscal Service, Police Scotland, National Services Scotland (NHS), Student Awards Agency Scotland and the Scottish Public Pensions Agency – with the aim of improving counter fraud across the public sector. The Forum also has links with the Serious and Organised Crime Taskforce ensuring consistency in approaches.

3. An effective approach to counter fraud is an important element of maintaining efficiency in the face of continued austerity, ensuring that public money goes to front line services. The Strategy is designed to support our future delivery of public services through emphasising:

- a decisive shift towards prevention
- greater integration and partnership working
- workforce development through investment in the skills and capacity
- a sharp focus on performance

4. The Scottish Government embodies this approach in the steps taken to raise awareness levels and collaboration in the fight against fraud throughout the organisation and the Scottish public sector that includes:

- Supporting the work of the NFI to review the robustness of our financial data and effectiveness of our systems;
- Wider engagement with the Scottish public sector through our annual Counter Fraud Conference and awareness events which provide the opportunity to network and learn from one another;
- Sharing our approach and supporting the prevention agenda through the Fraud, Error and Debt Team within Cabinet Office, participating in cross-government groups such as the Counter Fraud Champions Network and NFI Steering Group;
- The development of a partnership agreement with NHS Counter Fraud Services to use its counter fraud expertise with the view to improving our capacity to manage and mitigate risks of fraud, bribery and corruption;

- Support of the CIPFA Fraud and Corruption Tracker through promoting participation by public bodies and local government in Scotland;
- Exploring data sharing opportunities and assessing training and knowledge gaps across the public sector through the Counter Fraud Forum.

5. These activities are also in support of the [Open Government Partnership](#) commitment:

Place Scotland as a leader in identifying and preventing corruption and the risk of fraud and corruption in the public sector. Members of the Counter Fraud Forum have contributed specific actions by their organisation to ensure the ambition of the strategy and Open Government Partnership commitment are put into practice.