The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 28 October 2015

Session 4

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FINANCE COMMITTEE
26th Meeting 2015, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Richard Baker (North East Scotland) (Lab)
*Gavin Brown (Lothian) (Con)
*Mark McDonald (Aberdeen Donside) (SNP)
*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Alison Cumming (Scottish Government)
Sean Neill (Scottish Government)
John St Clair (Scottish Government)
Edward Troup (HM Revenue and Customs)
Sarah Walker (HM Revenue and Customs)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance Committee

Wednesday 28 October 2015

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the 26th meeting in 2015 of the Finance Committee of the Scottish Parliament. I remind everyone present to turn off their mobile phones, tablets and other electronic devices.

First of all, we need to decide whether to take items 4, 5, 6 and 7 in private. Do members agree to do that?

Members *indicated agreement.*

Scottish Fiscal Commission Bill: Stage 1

10:01

The Convener: Agenda item 2 is evidence taking from Scottish Government officials on the Scottish Fiscal Commission Bill. I welcome to the meeting Alison Cumming, Sean Neill and John St Clair and invite Mr Neill to make a short opening statement.

Sean Neill (Scottish Government): Thank you for the opportunity to make a short opening statement on the Scottish Fiscal Commission Bill.

The bill is a culmination of around two years of work, including two inquiries conducted by the committee and a Government consultation. It gives the Scottish Fiscal Commission a basis in statute, which safeguards its structural and operational independence, and it formalises the commission's role in scrutinising the operation of Scotland's devolved fiscal framework. The Scottish Government has always intended the commission to have a legislative underpinning, and it committed to bringing forward legislative proposals in the 2014-15 programme for government.

As the committee is aware, we published a consultation on a draft bill in March 2015. We have worked carefully over the summer to refine our legislative proposals, reflecting on responses to our consultation, the evidence gathered by the committee and international best practice, including the work of the Organisation for Economic Co-operation and Development and the International Monetary Fund. The bill that has been introduced to Parliament reflects a number of policy changes that we consider further strengthen the commission's independence and which I am sure we will discuss further today.

The most significant change is the removal of the requirement for the commission to

"prepare other reports on fiscal matters as Ministers may from time to time require".

Such a power could appear at odds with our policy intention to create a commission that is structurally, operationally and visibly independent of Government, and the bill now allows the commission to prepare such reports on

"other fiscal factors ... as it considers appropriate."

Importantly, the commission's remit as set out in the bill is designed to reflect and be proportionate to the fiscal powers that are devolved to the Scottish Parliament under the Scotland Act 2012. The commission's core function is to report to the Parliament and the public on the tax estimates, prepared by Scottish ministers, that underpin the Scottish draft budget. As such, the work of the commission is central to the integrity of the Scottish budget process.

The bill is also designed to provide flexibility to amend the commission's remit in the future to reflect any expansion in the Scottish Parliament's fiscal powers, including those contained in the Scotland Bill that is currently proceeding through Westminster. We need to future proof the bill to ensure that the commission's functions adequately address any new settlement without recourse to primary legislation. The financial memorandum accompanying the bill demonstrates that the Scottish Government is committed to providing the commission with sufficient and appropriate resources to discharge its functions and to provide effective and robust scrutiny of the fiscal estimates that underpin the Scottish budget.

The Government has found the work that the committee has undertaken to date on the creation of the Scottish Fiscal Commission to be very helpful in informing the development of our legislative proposals. We look forward to considering and reflecting on the further evidence that the committee will gather at stage 1 of the bill process and to discussing our legislative proposals with you this morning.

The Convener: Thank you for that brief introduction. We will go straight to questions from me, after which I will allow other members of the committee to come in.

One issue that has been raised is forecasting. You will have read our report on Scotland's fiscal framework, particularly the recommendations set out in paragraphs 131 to 133. Paragraph 131 states that

"The Committee is unaware of any other example of a fiscal council relying solely on official government forecasts",

while paragraph 133 states that

"The Committee notes the strong level of support among witnesses for the SFC carrying out its own forecasts".

Why is the Scottish Government insisting on the situation here being different from that in other countries, where other bodies are able to comment on other fiscal forecasts, including those produced independently?

Alison Cumming (Scottish Government): The Scottish Government considers that what it is doing is consistent with international best practice across the world. The OECD and the IMF both recognise that the specific roles and functions of a fiscal commission should be tailored to local political and institutional fiscal environments, and the Deputy First Minister has made clear to Parliament on several occasions that in his view the responsibility for preparing tax forecasts that appear in the Scottish budget is a primary responsibility of Scottish ministers, who should be directly accountable to the Parliament for those forecasts.

We believe that our approach maximises the transparency of the forecasting process. It ensures that there is a full account in the public domain of the Government's forecasting methodology and the assumptions that underpin those forecasts. Also—and importantly—the results of independent scrutiny undertaken by the Fiscal Commission will be available. That information will include the commission's assessment of the forecasts, and the impact on forecasts of any specific recommendations that the commission had made during the scrutiny process will be clearly set out.

We have looked carefully at the OECD evidence—this is also reflected in the Scottish Parliament information centre briefing on the bill—and it is clear that a very small number of fiscal councils in operation across the world, of which the United Kingdom Office for Budget Responsibility is one, produce official forecasts for Governments. In the majority of cases, the official forecasts are prepared by a ministry of finance or the equivalent.

What we have sought to do in the bill is to make clear that the process by which the commission will determine how it assesses the reasonableness of forecasts is a matter over which the Government will have no power of direction or involvement whatsoever. Indeed, that is also made clear in the framework document for the non-statutory commission. Crucially, we have not shut down in any way the commission's ability to produce its own alternative forecasts of the tax revenues and other factors that are within its remit and in the draft budget. The commission will be empowered both through legislative powers and the resources that will be allocated to them as set out in the financial memorandum. There is scope for the commission to prepare alternative forecasts if it so chooses, but that is a matter for the commission to determine.

The Convener: Okay. We all have the same SPICe table that shows the number of Governments that produce their own forecasts, but SPICe also points out that

"it is common in independent fiscal institutions (IFIs) for there to be other economic and fiscal forecasts to draw on"

and that

"both the Irish and Swedish fiscal bodies have access to alternative forecasts and do not rely solely on Government forecasts."

I think that that is the issue. You have just said that the SFC will be able to produce its own forecasts. Is that realistic, given the fact that it will also be involved in producing the Government's forecasts? What level of input does the commission currently have in helping to produce the Government's forecasts?

Alison Cumming: The Government has sole responsibility for producing forecasts; the role of the commission is to challenge and scrutinise them.

Under the present process, Scottish Government economists prepare forecasts and forecasting methodology papers, which are presented to the commission for discussion. Those are subject to robust scrutiny and review by commission members, who will ask the economists to justify the basis for the judgments that have been made and the techniques that they have applied in arriving at those forecasts.

We are working with the commission to look at ways of maximising the transparency of that scrutiny process. Obviously it is difficult to do that while the scrutiny process is on-going, but we anticipate that when the Scottish draft budget for 2016-17 is published—and the commission's report alongside that—we will see clearly the impact of the commission's scrutiny on the Government's forecasts. There will be transparency with regard to the interactions that have taken place between the Government and the commission and the nature of those interactions.

The Convener: I am sure that colleagues will want to explore that area further, so I will turn to another issue.

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 that the draft budget is published. Why is that? Surely one would expect the commission to have some time after publication to look at that instead of its having to phone you up while you are all scurrying around trying to dot the i's and cross the t's on the draft budget. The fact that the report has to come out on the same day does not seem to be a recipe for producing it in the most efficient or effective way. What is the thinking behind that approach?

Alison Cumming: The commission's scrutiny of the Government's fiscal forecasts and estimates is central to the integrity of the Scottish budget process. The Deputy First Minister has made it clear on several occasions that he would not want to bring forward forecasts underpinning a Scottish budget that were not assessed as reasonable by the independent commission. The main area of value that the commission can add is in undertaking its scrutiny prior to the budget's publication to ensure that when the budget comes forward it is underpinned by forecasts that are as robust and reasonable as possible.

In that respect, there are parallels with public audit and other processes. In order to facilitate that, the bill requires the commission to send a copy of its report to the Scottish ministers in advance of laying it before Parliament. I suspect that you might want to explore that requirement this morning, but, again, it is consistent with the process for Audit Scotland reports. It also provides the opportunity for the Government to access and understand the nature of the commission's findings. Importantly, it also gives time for ministers, if they so choose, to revise their forecasts in line with the commission's findings.

The Convener: We heard in a private briefing from Ian Lienert, who has done an excellent piece of research on this area, that since 2013 the European Union has been putting pressure on eurozone countries to look at macroeconomic forecasts. Given that background, could the bill be amended to look at the sustainability of Scotland's macrofinances as we progress?

Alison Cumming: One of the key narratives running through our policy proposals has been the recognition that the commission's functions should be proportionate to the Parliament's fiscal powers. As a result, we have sought to design a remit for the commission that reflects the current devolved competence of the Scottish Parliament.

The Deputy First Minister previously suggested to the committee that there is a role for Parliament in holding the Government to account on the sustainability of its spending decisions. Obviously we will look closely at ways of expanding the commission's remit to reflect further fiscal powers that might come in a future Scotland bill or, indeed, in the current Scotland Bill.

The Convener: On ensuring access to your information, the bill gives Scottish ministers considerable discretion to decide what can "reasonably" be provided within "reasonable" time limits. Should the bill not be more unequivocal in this area?

10:15

Alison Cumming: This might be an area where John St Clair will wish to expand on what I say. In section 7, we have presented what we consider to be a very robust right of access to information for the commission. Indeed, it is a specific "right of access" for the commission, rather than a right to request information. We would be looking to underpin the statutory provisions with a more detailed memorandum of understanding, which would explain how things would work in practice. That said, although we consider that we have set out a robust right of access, we are very much open to suggestions on how we could strengthen it further.

John St Clair (Scottish Government): As Alison Cumming has said, there is a statutory right to information as well as a powerful right to require information. We do not mention legal powers in the bill, but those could be invoked, if necessary, by a declarator or some other action in the Court of Session if somebody refused to hand over information or give an explanation.

That said, these provisions relate to Government departments, and it is almost inconceivable that one bit of the Administration would litigate against another. One does not put that in statute. There are legal back-up powers, but they will not be invoked. Usually there is an MOU between departments or some sort of political settlement. It would be a sign of some crisis if one bit of the Administration was not able to get from another bit information that it is entitled to.

We think that the measures are robust. As for reasonability, that is a very common issue. It would be possible to ask for almost any information, but it would not be possible to say, for instance, “We need every single taxpayer’s report by tomorrow afternoon.” That is the sort of thing that the provision is trying to stop. The powers of Revenue Scotland are framed in very similar terms and, indeed, they run through most tax legislation. Powers must be tempered to a certain extent to ensure that departments are not overloaded with requests.

The Convener: We know from the bill how much additional funding is going to be provided to the Scottish Fiscal Commission, but how much internal resource is being allocated within the Scottish Government to help prepare and enhance the quality of forecasts?

Sean Neill: As Alison Cumming has mentioned, there has been input from a number of analytical services and departments across the Government. In my division, Alison and her team work very closely with the commission. Across key areas such as environment, communities and the office of the chief economic adviser, significant resources have been allocated to support work on assessing the reasonableness of our forecasts.

The Convener: I will raise one more topic before I allow colleagues to ask questions. I note that

“the OECD has developed a number of minimum requirements or principles that are deemed suitable”

for such commissions,

“regardless of local circumstances.”

Have all those principles been met?

Alison Cumming: We consider that they have been met, to the extent that it is possible for the Government to do so. A number of the principles relate to the commission’s activities and to the way in which the commission conducts itself, and we have set out in the policy memorandum our assessment of how we believe our legislative proposals deliver against those OECD principles.

One of the policy changes that we introduced following our consultation on the draft bill over the spring and summer was a statutory requirement for independent evaluation of the commission’s performance every five years. That was driven, in part, by the responses to the consultation. It also involved further reflection on how the bill might reflect the OECD principles, one of which is to ensure that such a body’s work is subject to external scrutiny.

The Convener: Do you wish to comment on that, too, Sean?

Sean Neill: I should just mention that that sits alongside the requirement in the bill for the commission to prepare an annual report that sets out how it is getting on with its work.

The Convener: A number of colleagues wish to ask questions. We will start with Gavin Brown.

Gavin Brown (Lothian) (Con): Good morning. Let us go to section 4 of the bill. The convener asked you about ministers getting copies of reports prior to those reports going before Parliament. Will you reiterate the policy reason why ministers would get those reports before Parliament?

Alison Cumming: That would be to ensure that the process of scrutiny supports the integrity of the Scottish budget process so that there is an opportunity for ministers to ensure that the forecasts that they provide to Parliament in the draft budget have been independently assessed as reasonable. We consider that there is public interest in ensuring that the forecasts that underpin the Scottish budget are independently assessed as being robust.

We accept that there is a need for such arrangements to be as transparent as possible and have been discussing with the Fiscal Commission the possibility of developing a protocol that is similar to the ones that exist between the Scottish Government and Audit Scotland, which are published as annexes to the Scottish public finance manual. That protocol would provide Parliament and the public with information on how the relationship is to be managed and how information, including draft and final reports, is to be exchanged.

Gavin Brown: So, the process will mirror the Audit Scotland process in some ways. Exact details might not be available on timing, but how much earlier than Parliament do you envisage the Scottish Government getting reports?

Alison Cumming: That would be a matter for agreement with the commission; we would not seek to dictate or specify that to it. To take Audit Scotland reports as an example, the Scottish Government receives a clearance draft of a report in order to check its factual accuracy, and has three weeks within which to provide comments on it. The protocol requires that the Scottish Government is, thereafter, provided with an embargoed copy of the final report three days prior to publication. I suggest that we would use that benchmark as a basis for discussion with the commission, but agreement would be based on timescales with which the commission was comfortable.

Gavin Brown: There is no fixed answer yet, but is it your understanding that we could have a scenario in which the Scottish Fiscal Commission would send to the Government a clearance draft of a report three weeks before Parliament would see it, and would then send to the Government an embargoed copy three days before Parliament would see it?

Alison Cumming: That is potentially the case; that is how it works for Audit Scotland reports. The budget process can be quite time pressured. I am not saying that three weeks would be the appropriate period; it is what we would use as a reference point for discussions with the commission.

Sean Neill: It is probably important to make it clear that, when we talk about clearance, we refer to clearance for factual accuracy as opposed to clearance of the report. The Fiscal Commission will produce its own report independent of Government and we should not in any way seek to influence what is in it.

Gavin Brown: This might not be a question that you can answer, but can you envisage any areas of dispute or discussions about the clearance draft being made public at some later point?

Alison Cumming: If there were any disputes to be had, they would be over factual accuracy. Our experience is that the commission would want to be sure that whatever it was putting into the public domain was factually accurate. We are also mindful of exchanges on draft reports in recent months between the Treasury and the OBR. We would therefore, as far as is possible and practical, seek to be transparent about changes, but as Sean Neill said, the only changes that we envisage would be to clarify understanding of the forecasting processes and methodologies that the Scottish Government had put in place.

There are robust measures in the bill and in the framework document for the non-statutory commission that make it clear that the Government would not seek to influence in any way the commission’s judgements, or the presentation of its findings.

Gavin Brown: I will move on to a different issue, which relates to section 2 of the bill, on the commission’s functions. Under section 2(1)(a), the commission will look at

“forecasts of receipts from the devolved taxes”.

That is fairly straightforward, but I struggle with section 2(1)(b). Instead of looking at the forecasts for non-domestic rates, the commission will look at

“the assumptions made by the Scottish Ministers in relation to the determinants described in subsection (2) (being the economic determinants on which the Scottish Ministers’ forecasts of receipts from non-domestic rates are based)”.

I have looked at what the OBR does; basically, it produces a forecast for non-domestic rates. Why could the commission not just take a view on the overall forecast for non-domestic rates, rather than taking the more convoluted approach that section 2(1)(b) provides for?

Alison Cumming: The approach that is set out in the bill for non-domestic rates is consistent with the role that the non-statutory commission has in relation to the economic determinants of non-domestic rate forecasts, which are defined as the buoyancy assumption and the inflation-rate assumption. In designing the remit of the non-statutory commission, a decision was taken that there are elements of the non-domestic rate forecast that are driven by commercial assumptions on issues such as bad debts and appeal losses, which are based on experience and assessments made by the Scottish Government and local authorities. Those areas of judgment might be less suited to the expertise of the Scottish Fiscal Commission, which will be more focused on economic forecasting assumptions.

Gavin Brown: You are right to say that what is provided for in the bill mirrors the functions of the non-statutory commission, but I did not really understand at the time why the functions of the non-statutory commission were defined in that way. The OBR is obviously bigger than the SFC, but I am still confused about why the SFC could not assess the overall forecast rather than just looking at the buoyancy factors, when other fiscal commissions such as the OBR can forecast how much is likely to be collected in business rates. Will you explain why the commission could not simply forecast the receipts from business rates?

Alison Cumming: The reason for that is to do with commercial assumptions, which was thought to be an area on which the commission could not reach a judgement in the same way as it can on the economic factors that drive the forecasts. Those assumptions tend to be based on judgment, experience and commercially sensitive data. At the time, the Deputy First Minister made it clear which areas of non-domestic rates he considered to be suitable for the commission to review, but we will certainly reflect further on the issue.

Gavin Brown: That is fair enough. Of course, there are commercial judgments involved, but given that we are asking the commission to look at the successor to stamp duty land tax—land and buildings transaction tax—which is volatile, too, and the forecast for which involves commercial assumptions, I am still at a loss to understand the reason for the Government's position. However, you have said that you will reflect on the matter.

Similarly, the OBR forecasts receipts from council tax. Why are we not asking the commission to look at the forecasts for council tax, which will have a big impact on public spending in Scotland?

Alison Cumming: In designing the scope of the commission's work, we have focused strongly on forecasts that underpin the Scottish budget. Because the Scottish budget is not underpinned by council tax forecasts, which are a matter for local authorities, we have not in the bill provided for a function in relation to council tax.

Gavin Brown: Again, that mirrors the position of the non-statutory commission, which I accepted at the time. However, although the council tax forecasts do not affect the Scottish budget, they affect the spending power of councils and therefore the economic position of Scotland as a whole. Has the Government reached a fixed view on that or would it be prepared to reflect on the matter?

Alison Cumming: That goes back to the fundamental fact that the commission's primary role relates to the Scottish budget rather than to wider public finance issues.

10:30

Gavin Brown: I will move on to my last issue, which is forecasting. I guess that that is usually the one that takes up the most time, although the convener has clearly covered it in a bit of detail.

The Scottish Government position is—I think that you have said it again today—that what it is doing is consistent with international best practice. You are right to say that not every fiscal commission does the official forecast—I think that there are three fiscal commissions that do that, of which the OBR is one, so I accept your point entirely. However, I am struggling when I look at all the other fiscal commissions. I have looked at the other commissions through the work of independent experts, SPICe and anyone else that I can find. Every one that I have looked at either prepares alternative forecasts or has access to independent alternative forecasts, whether it is the IMF, the OECD, the EU or another body, such as the one that they have in Sweden. However, I have not been able to find any fiscal commissions that look only at Government forecasts as the only option that they have for making decisions. I ask this question quite genuinely: has the Scottish Government done research on this? Given that you have said that its practice is consistent with international best practice, in what countries do the fiscal commissions look only at the Government forecasts?

Alison Cumming: There are two main points that I would like to make here. The first is about the role of the commission being proportionate to the fiscal powers of the Parliament. We are establishing a fiscal commission for a sub-sovereign Parliament, which changes the nature of the forecast and assumptions that the commission will look at, compared with what the sovereign commissions that exist around the world do.

On alternative forecasts, those sovereign commissions would, to my knowledge, look at forecasts of gross domestic product assumptions, fiscal aggregates and so on, and do not necessarily look at alternative forecasts for individual taxes, which tend to be treated slightly differently. To that extent, we have sought in the bill to empower the commission to determine how it will assess the reasonableness of forecasts. Within that, it will be open to the commission to determine whether the best way to do that is to prepare alternative forecasts either by itself or by commissioning those from external parties. We have included provision in the financial memorandum for external research costs.

We have also underpinned that, as we discussed, by a right of access—a right to receive data from the Scottish Government and from Revenue Scotland and other public bodies that would hold relevant data. It is difficult for the Government to comment too much on what the commission should do in that area because, clearly, that would be a matter for the commission. However, we have sought through the legislation to enable the commission to do that and not in any way to restrict its ability to do that.

Gavin Brown: You may not have a live example of a country now, which is fair enough, but are there international examples where the fiscal commissions look only at the Government forecasts? I am genuinely interested, because I have not found any examples, although I have looked quite hard.

I take your point that the situation for subnational legislatures is slightly different. However, at the end of the day, if we get it wrong or we suffer from optimism bias, we will be left with the same problems, in that suddenly we may have a shortfall. It may not be of the degree that it would be for a fully sovereign commission, but the error would grow year on year and could become a pretty big problem. I simply leave that point out there.

On your last point about not wanting to be too prescriptive on how the commission does it job, I have to say that I am quite heartened by what you said. I scribbled it down, so I do not have an exact quotation, but you basically said that you have not shut down the Fiscal Commission's ability to prepare alternative forecasts. I hope that that is correct, but it seems to be slightly at odds with at least the tone of the previous evidence that I have heard from the Government. Again, I cannot quote it exactly, but I was given the impression that if the commission were to do alternative forecasts, that would be unnecessary duplication. It certainly seemed to me that the Government view at that time was that it not only did not want to put that in the bill, but wanted to discourage it, because it felt that that would be duplication. Is the Government's view different now? Saying, "We haven't shut the door," is slightly different from saying, "We think it would be quite a good idea and we wouldn't be against it." Again, maybe you cannot go too far on this, but is there a Government view that alternative forecasting would be a positive thing, or are you simply saying that you would not legally block it?

Sean Neill: It is important to be clear that what we are saying is that we have left open to the Scottish Fiscal Commission the option to determine how it assesses reasonableness.

When we were considering the financial memorandum, we had a dialogue about the resources that the non-statutory commission felt that it needed to discharge the functions. That is reflected in the financial memorandum and the resources that are set aside for, as Alison Cumming said, staffing, and for potential further research. We are clearly saying here that we want to leave it up to the commission to determine how it assesses reasonableness. We are trying to enable that by giving it the resources, as well as, in section 2(5), the legislative cover, if the commission thinks that that is right.

Gavin Brown: Just to be clear, it is no longer the official Government view that alternative forecasts would be duplication.

Alison Cumming: That issue has been considered, and if the Fiscal Commission were preparing official forecasts, the Government would also need to produce its own forecasting models to support on-going policy development and financial planning. If the Fiscal Commission prepares alternative forecasts, there will be potential duplication of effort. However, as Sean Neill said, that is for the commission to determine.

John St Clair: There is a practical point to make here. We are leaving it to the commission to decide about the forecasts. If the commission says that the Government's forecasts are unreasonable, one would expect the commission to identify what it thinks is the reasonable way of forecasting. It would then be up to either the commission or outsiders to work the projections from that reasonable basis, which may already be implicit in a criticism of the reasonableness of the forecasts.

Gavin Brown: Okay. I am grateful to you. Thank you.

The Convener: The next question is from John Mason, to be followed by Mark McDonald. [*Interruption*.] Sorry, Jackie—I thought that you had been in already.

Jackie Baillie (Dumbarton) (Lab): Are you suggesting that Gavin Brown has been going on for too long? I would not dream of suggesting that.

The Convener: Certainly not. Jackie will be followed by John Mason. I apologise for that.

Jackie Baillie: I will be much briefer than I had intended because a lot of the ground has been covered.

First, I come back to the issue about testing the independence of the commission, which I think is critical to whether people accept the commission. The relationship with Audit Scotland is interesting, as is the parallel that you chose to draw. I remember, in the not too dim and distant past, a degree of controversy over the sharing of an Audit Scotland report with the Government, and changes that were being made which were considered to be—I refer to those who were critical of it at the time—not factual but presentational. Surely it is in the Government's interests for the Fiscal Commission to act truly independently in order to avoid the perception that there is any collusion behind the scenes. Therefore, do you think that the Audit Scotland model is appropriate?

Secondly, I would agree about same-day reporting if the situation was as it is with the OBR, because the OBR does the official forecasting for the UK Government. You are not asking the Fiscal Commission to do that, which is why I think that a separation in time might not be a bad thing. If we are being honest about it, the capacity in Scotland—even in Government—to do that kind of forecasting is limited, and we will need to increase that capacity for Scotland as a whole. I cannot imagine a situation in which you are waiting for the Fiscal Commission to tell you that a forecast is okay, because the Government has the greatest capacity to do that kind of forecasting.

Will you comment on both of those issues?

Alison Cumming: Certainly. On the Audit Scotland issue, the example of the protocol was really more in terms of the process. There is a published protocol that specifies things including time limits. I am not saying that that would be replicated in its entirety for the Fiscal Commission. There are clearly other considerations. The Scottish Government has been very robust in stating its position that we will not seek to influence the commission's judgments on our forecasts. It is important for the commission's credibility, however, that there is an opportunity to comment on factual accuracy. I do not think that that is in dispute.

We would seek to ensure that the protocol was very clear and continued the theme of the framework document for the non-statutory commission, so that on any clearance draft—for want of a better term—that was submitted to the Scottish Government, the Government would offer its views to the commission only on matters of factual accuracy. We would not seek to offer any views on the commission's findings or on how it presented those findings.

Jackie Baillie: History tells us that that has not necessarily been the case in all the Government's dealings with people with which it has understandings.

To guard against any suggestion that the Fiscal Commission is tied up with the Government, I wonder whether you will, if there is a process of advance notification to allow issues to be raised regarding factual accuracy, publish as a matter of course any amendments that are made.

Alison Cumming: We will take that point away and discuss it with the commission. We are very open to considering any ways in which we can maximise the transparency of the relationship and interactions between the Scottish Fiscal Commission and the Scottish Government. I cannot comment on any previous Audit Scotland reports.

Your second set of points was about the desirability of the Scottish Government having access to a report in advance and about reports being published at the same time as the Deputy First Minister or the finance secretary of the day stands up to deliver the draft budget. That comes down to the value that the Fiscal Commission adds to the integrity of the Scottish budget process.

We suggest that it might not be in the public interest for a Government to bring forward a budget that is underpinned by tax forecasts that determine the overall amount of spending power available to that Government if independent experts subsequently say that those forecasts are unreasonable. The public interest is in maintaining the integrity of the draft budget process, so that the draft budget that is brought to Parliament comes with the assessment having already taken place and there is no need to revise parts of the budget to reflect changes in the forecasts after the draft budget has been published.

Jackie Baillie: By its nature, the budget is revised as it makes its way through Parliament, so surely it would not be difficult for the Government to do what I have suggested.

Alison Cumming: It might not be practically difficult, but we think that the integrity of the Scottish draft budget is maximised if the assessment takes place prior to publication and if there is complete transparency about that assessment.

Jackie Baillie: Sure. The idea could equally—as you would expect me to say from a Finance Committee perspective—lend more robust scrutiny to the process.

I will deal with flexibility in forecasts, although you dealt with many of the issues in response to Gavin Brown's questions. You point to section 2(5)—I confess that I do not have the wording in front of me. Does that provision explicitly give the Fiscal Commission the power, if you are prepared to be that flexible, to do forecasting itself if it chooses to do so?

Alison Cumming: Section 2(5) provides that reports that are prepared by the commission

"may include such other information relating to the assessments being made as the Commission considers appropriate."

That power would enable the commission to publish alternative forecasts.

Section 6 is another key provision, which makes it clear that the commission is not subject to Government direction in deciding how it undertakes its assessment of reasonableness. It is implicit in that provision that the commission can determine how it undertakes that assessment, and that it can if it so chooses determine whether it prepares alternative forecasts or assumptions as part of that.

Having discussed the matter with our legal counsel, we understand—John St Clair might want to add to this—that there is no legal requirement to provide specifically for a function to allow the commission to prepare alternative forecasts. We can look at that; the explanatory notes to the bill make it clear that it is open to the commission to

"consider the effect of alternative forecasting assumptions or methodologies on revenue forecasts."

10:45

John St Clair: Our legal advice is that the bill leaves it wide open for the commission to make explicit alternative forecasts or, alternatively, it can just identify where there has not been reasonableness, provide what it thinks is reasonable and have others make their projections.

Jackie Baillie: Equally, there would be no harm—given that the Government appears to be open to it—in putting that in the bill.

Alison Cumming: We can reflect on that.

Jackie Baillie: Finally—I promise that this is final, convener—I will stick with the independence of the Fiscal Commission. You take quite sweeping powers in section 26 for ministers to change the functions by regulation. You would naturally expect me to prefer primary legislation to regulation, because it has more scrutiny. Would you shift on that? The importance of the body demands primary legislation.

The Scottish Government is quite heavily involved in the appointment of members to the Fiscal Commission. Scotland is a small place and we all tend to know one another. What other options did you consider to ensure the body's independence? We have been presented with alternative suggestions that do not involve the Scottish Government but are robust.

Alison Cumming: I might ask John St Clair to explain the legal position on section 26 afterwards. It is certainly our intention that it will be more of a contingency or emergency provision than something that is routinely used, but he could comment on that in greater detail.

I give as an example section 5, which provides the power for the Scottish ministers to make regulations to confer additional functions and modify or remove functions. We have entrenched some of the commission's core functions in primary legislation so that they cannot be removed using those regulation-making powers. We very much see that there are areas where we need to provide flexibility, but the core functions and operation of the commission are seen primarily as a matter for primary legislation.

On the appointments process, we have looked at examples of how ministerial appointments work. The key elements are that ministerial appointments are all regulated by the Commissioner for Ethical Standards in Public Life in Scotland and that the appointments process will be subject to the code of practice for ministerial appointments to public bodies in Scotland, which will provide safeguards about the process and about there being a fair and open competition and will ensure that appointments are made on merit. Thereafter, there is in effect a veto for Parliament, because it will scrutinise the nominations that are brought forward for appointment, as the Finance Committee and the Parliament did for the appointments to the non-statutory commission.

Jackie Baillie: I have a tiny question, convener. Did the Government consider alternative options?

Alison Cumming: I have set out the policy position that the Government has arrived at.

John Mason (Glasgow Shettleston) (SNP): I will follow up the point that Jackie Baillie made. I know that the Delegated Powers and Law Reform Committee has looked at the bill, as I am also a member of that committee. Is part of the thinking behind having the powers as they are and giving ministers power that, as devolution progresses, primary legislation will not be needed every time a new tax or a new power comes? Is that broadly the thinking?

Alison Cumming: Yes. We recognise that we are going through a process to consider the devolution of further fiscal powers to the Scottish Parliament, so we wanted to ensure that there is reasonable flexibility in the bill for Parliament to modify the functions to reflect any expansion in fiscal powers without having recourse to primary legislation.

Sean Neill: Some of that is set out in how the bill is drafted. We talk about devolved taxes in the broadest sense instead of naming the two devolved taxes, so the wording covers all devolved taxes. Wherever possible, we have tried to future proof the bill, but we recognise that devolution of further powers is in transition.

John Mason: We have devolved taxes such as LBTT, but we will also have assignment of taxes, as in VAT, so there might be more options in the future.

Sean Neill: Yes.

John Mason: You are fairly comfortable that what we have will cover all those options.

Alison Cumming: The bill covers the full devolution of tax powers in relation to, for example, the powers to replace stamp duty land tax and the UK landfill tax. Air passenger duty and the aggregates levy would be automatically covered under the existing power, given the way in which we have defined devolved taxes. Assigned revenues for VAT, for example, would need to be considered; that would depend on how the power was framed and how the fiscal framework operated. It probably depends on who produces the forecasts but, if the Scottish ministers produced VAT forecasts to support assignment of VAT, we could envisage an additional function being conferred on the commission to review the reasonableness of those forecasts.

Sean Neill: The public consultation document that went out contained a list of other functions that the commission could have, and such a function was set out in relation to further devolution.

John Mason: We have spent a lot of time on who makes forecasts and all that kind of stuff, so I do not want to repeat that. If the commission set up its own forecasting model, do we have any idea of what that would cost?

Alison Cumming: We do not have specific estimates of that. The cost would depend on how the commission wished to go about the activity. The estimates that were drawn up for the financial memorandum were produced in consultation with members of the non-statutory commission and they are intended to cover, within the total resource envelope, the resource that the commission feels would be required to exercise its scrutiny as set out in the bill.

John Mason: We have £850,000 per year going forward. If the commission did substantial forecasting, would we be talking about double or triple that figure?

Alison Cumming: In the category of staffing costs, there might be a requirement to increase the staffing allocation for strategic and analytical support to the commission, or the commission might wish to use the provision of around £100,000 that we have suggested for research. However, without being able to specify exactly what the commission might want to do, it is difficult to give a precise figure. That would very much be a matter for the commission. If it felt that it was not adequately resourced within the resource envelope, the Government would take that seriously and discuss that further with it.

John Mason: I do not want to press you unreasonably, because I am asking about something that you are not planning to do. However, do we have an idea of how many Government staff are involved in forecasting? Is that not clear-cut, because staff are doing umpteen different jobs?

Sean Neill: That is a good assessment of forecasting. There is a limited number of people in the Government who exclusively do forecasting. They undertake a number of roles, including forecasting, so it would be quite difficult to say exactly how much of their job was spent exclusively on forecasting as opposed to undertaking other analyses.

John Mason: It could be useful if we had some idea as to what extra costs might be involved, because forecasting is a key issue. For me, one of the answers involves the costs, and knowing those would help us to make our decision. I realise that the bill makes a proposal already but, if it was possible in the future to get any kind of figure on the forecasting, that would be helpful.

The relationship between Audit Scotland and the Government is relevant, but the relationship between auditors and their clients in general is important. In one sense, I see the Fiscal Commission as auditing the Government's forecasts. On the relationship between the two, is it your understanding that the auditors of any large organisation would be in it throughout the year to assess what was going on and would not just turn up on 31 March or whatever? Is that a fair comparison?

Alison Cumming: I am an accountant by profession and have experience of both the auditor and auditee sides of the public audit relationship. It is very much my experience that throughout the year there is engagement and reviewing of systems and controls that underpin the financial management and financial reporting arrangements, for example. The audit parallels are familiar to me, and they offer a helpful comparison with how the Fiscal Commission might conduct its work. There needs to be an opportunity for such challenge and scrutiny to take place; that might look to be behind the scenes, but the product of that should be made as transparent as possible.

I will draw a specific parallel. With the auditing of financial accounts, it is clear that the Government or the audited body puts forward its draft unaudited accounts for review by the auditor. The auditor undertakes their work, and at the end of the process the auditor prepares a report that clearly sets out the adjusted audit differences that have impacted on the accounts that were presented for audit before the final signed-off versions for audit were produced. The auditor also draws out any unadjusted material audit differences that were identified during the process, so that there is transparency about the areas that the auditor or external scrutineer looked at and that is put in the public domain.

John Mason: So you argue that it is possible for an auditor—or the Fiscal Commission—to engage regularly throughout the year and maintain their independence.

Alison Cumming: Yes.

John St Clair: Yes.

John Mason: When we talked about the right of access, Mr St Clair mentioned the possibility of a memorandum of understanding. Do we need to refer to that in the bill?

John St Clair: We do not. Memorandums of understanding are informal. They are not legally binding, and they usually just express on paper an on-going relationship between two bits of the

Administration. I have never seen them referred to in legislation.

John Mason: I think that we were broadly comfortable with the idea of members of the commission doing just one fixed term. I still wonder whether we have that many skilled people in Scotland, but I suppose that we could use people from outside Scotland. I understand from one of the reports that we saw that, in Ireland, people have a maximum of two terms of duty or spells on the equivalent body. Is the Government committed to one term? Might two terms work?

Alison Cumming: The Deputy First Minister has been clear in his position on that. That might even have been from the January 2014 evidence, but it was certainly the case in bringing forward the proposals for the non-statutory commission. The Scottish Government thinks that one of the key safeguards that we can put in place to support the commission's institutional independence is ensuring that there is no perception that people have any regard to their personal prospects of reappointment in how they report their findings or in the conclusions that they reach. We see that as strengthening the commission's independence.

John Mason: Audit Scotland said that it would be an improvement if the commission was funded through the Parliament's budget rather than the Government's budget. Do you have any thoughts on that?

Alison Cumming: We are open to considering that. The Government has made repeated assurances to Parliament that we will ensure that the Fiscal Commission is adequately resourced to fulfil its functions, and it will be subject to scrutiny in the normal way through the draft budget process and our spending proposals. We have spoken to the commission about administrative arrangements that we might be able to put in place to provide longer-term certainty to it about its resource allocation. The policy memorandum refers to that.

11:00

Mark McDonald (Aberdeen Donside) (SNP): I have just a couple of questions, because some of the questions that I was going to raise have already been asked.

I do not mean to dwell on the forecasting issue, but a point that has been made to the committee is that if the Fiscal Commission were to produce its own forecasts, it could give rise to a conflict of interests, in that it might err in favour of its own forecast and the outcomes of that rather than the Government's forecasts. This question might be more for the commissioners but, in leaving the door open for the commission to produce its own forecasts, does the Government recognise that conflict of interest?

Alison Cumming: That is probably a question for the commission, but I point out that a core function of the commission as set out in the bill will be to assess the reasonableness of forecasts that are put forward by Scottish ministers. In other words, the commission will be under a statutory duty to prepare reports assessing the reasonableness of the Government's forecasts.

Mark McDonald: The deputy convener has covered the other points that I was going to make, but I have one other question about term lengths for commissioners. Leaving aside the fixed-term element, I note that, first of all, although Parliament will approve the appointments, ministers will determine the length of term and that the bill itself does not define the term limit. Is there a reason why the term limit has been left open ended instead of being defined?

Alison Cumming: My understanding is that that is consistent with practice elsewhere in Scottish legislation; we tend not to specify in bills term lengths for such appointments and, instead, tend to reference the code of practice for ministerial appointments to public bodies, which sets out maximum term lengths in an administrative way. It is certainly an issue that we would be willing to reflect on when we look at the findings at stage 1.

Mark McDonald: It might give the impression that an appointee could be given a very long term length. Parliament might approve the appointment, but it has no official role with regard to the term that the appointee would serve. That could be a means of squaring the circle, but I will leave you to reflect on the matter further.

Richard Baker (North East Scotland) (Lab): I have a very brief question of clarification on the forecasting issue and the resources for that. I welcome what has been said this morning about leaving the door open to the potential for the commission to undertake its own forecasting, not least as part of its job in assessing the reasonableness of the Government's own forecasts. I also welcome your indication to John Mason that you are willing to look into providing further information about the resource impact that that might have on the commission. Have your discussions on the resources that the commission will need also included any discussion on whether the current resource allocation will allow independent forecasts to be commissioned, or is the expectation that that will require significant extra resource?

Alison Cumming: We have not specifically addressed the alternative forecast issue in our interactions with the commission on the financial memorandum; instead, we have been speaking more generally about the overall resource envelope and whether the commission considers that to be sufficient and adequate for it to discharge its statutory functions.

Richard Baker: That is helpful, and I think that the further information that Mr Mason has requested would also help the committee.

The Convener: That concludes questions from committee members, but not necessarily from me.

The last question that I was going to ask was almost exactly the same as Richard Baker's, but I want to follow on from that to ask why the Scottish Fiscal Commission's budget is substantially higher than that for the Irish Fiscal Advisory Council, even though the latter has a wider mandate.

Alison Cumming: There are two main areas of difference here, the first of which relates to the remuneration of commission members. The second area relates to something that we are trying hard to avoid through the proposals in the financial memorandum; we do not want to constrain in any way the decisions that the commission might make on how it organises itself as it moves to a statutory footing. All those questions will be considered as part of a transition programme. We have, for example, provided for accommodation costs based on commercial rates, which provides flexibility should the commission decide to locate itself in such premises. Of course, that is not to say that the decisions taken by the commission might not end up costing slightly less than what we have provided for in the financial memorandum.

The Convener: Sticking with the Irish model, I wonder whether you have looked at the fact that that particular fiscal council produces its report a month after the Irish draft budget. Do you feel such an approach to be disadvantageous?

Alison Cumming: It comes back to the point about the Scottish Government's view of how the commission can maximise the integrity of the Scottish draft budget process and the fact that the Deputy First Minister has made it very clear that he does not want to take a budget to Parliament that is underpinned by forecasts that the Fiscal Commission does not consider to be reasonable.

The Convener: So you think that the Irish have got this wrong.

Alison Cumming: I would not say that they have got it wrong. We are taking forward suggestions that we think suit the Scottish Parliament's arrangements.

The Convener: That is fine.

I have one final question before we wind things up. I have already asked Alison Cumming about the principles for effective independent fiscal institutions, which are set out in the SPICe briefing that we all have. One of those principles relates to a clear mandate, in respect of which the SPICe briefing says:

> "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."

Can you comment on whether that is the case?

Alison Cumming: As a general point, I would say that, although we consider that this bill delivers on all the OECD principles, we are very interested in hearing any suggestions that might be made at stage 1 of ways in which this aspect could be strengthened, and we are certainly open to looking at and reflecting on them.

The powers in section 5 reflect the unique situation that we have in Scotland with regard to the devolution of further fiscal powers, and we have sought to strike a balance between giving Parliament the flexibility to tailor and amend the Fiscal Commission's functions to reflect the expansion of those powers without recourse to primary legislation and entrenching the commission's core functions, including the requirement on it to

> "prepare reports setting out its assessment of the reasonableness of"

various factors—although the specific factors set out in section 2(a) to (d) could be subject to review—as well as entrenching its power to prepare reports on

> "such fiscal factors ... as it considers appropriate."

Removing those would require primary legislation. We have sought, as far as we can, to strike a balance between providing as much certainty as possible on the commission's functions in primary legislation and leaving some flexibility to take account of the devolution that is on-going and which might come in the future.

The Convener: Thank you. I said that that would be my final question, but I was only kidding on—I have another one.

On the independence of the Fiscal Commission and institutional capture, I note that the SFC's staff include someone seconded from the Scottish Government. Issues have been raised, not least by the Institute of Chartered Accountants of Scotland, about the Scottish Government's closeness to the Scottish Fiscal Commission. Surely if we want a body that is not only independent but seen to be independent, it does not really help matters if Scottish Government officials are effectively being seconded to an organisation that is scrutinising the Scottish Government itself.

Sean Neill: I make it clear that this particular arrangement is only an interim one—it is not something that has been established and which will continue. As the letter to the committee makes clear, the member of staff in question has nothing to do with the forecasting; the key area in which they are working is more to do with the transition to a statutory body and ensuring that the systems are in place in line with the requirements outlined in the framework agreement. It is all about process and transition, and it has nothing whatever to do with forecasting.

I repeat that this is only an interim arrangement; it is not long established, and it will come to an end. It will be up to the commission to determine the staffing, skills and resources that it needs within the envelope provided for in the financial memorandum.

The Convener: Thank you very much. That concludes questions from the committee and from me. Do you wish to make any other points before we wind up the session?

Sean Neill: No.

The Convener: In that case, thank you very much for your time and for answering our questions.

I suspend the meeting until 11.15 to give members a natural break and to allow a changeover of witnesses.

11:10

Meeting suspended.

11:16

On resuming—

Scottish Rate of Income Tax

The Convener: Our third item of business today is evidence from HM Revenue and Customs officials on the Scottish rate of income tax. We are joined once again by Edward Troup and Sarah Walker. I welcome our witnesses to the meeting and invite Mr Troup to make a short opening statement.

Edward Troup (HM Revenue and Customs): Thank you, convener. It is good to be here again. I am happy to be able to update the committee on the work on the Scottish rate of income tax. The good news is that, as you will have seen from the memorandum that we have submitted, we are on track to implement the Scottish rate on time and within—indeed, a little bit below—the original budget.

The main activities at present are communications, identification of Scottish taxpayers and ensuring that employers have a good level of awareness of their obligations and what the Scottish rate will involve. We have had good communications with employers, payroll software companies, pension providers and professional bodies. We have already put out specifications and guidance for software developers and we have put a lot of information about the Scottish rate online. This week, we published guidance for Scottish taxpayers on www.gov.uk, the UK Government website.

Later in the year—we have not quite fixed the date, but it will probably be in December—we will write to all the taxpayers whom we believe are Scottish residents based on their postcode. That is slightly over 2.5 million people. That will give those individuals an opportunity to correct their address details if, for instance, they have recently moved from Scotland and are elsewhere or have recently moved to Scotland and become aware of the need to identify themselves.

We are doing and will continue to do a series of checks of the addresses that we hold on our systems against a range of databases to give us as high a level of confidence as possible that we have correctly identified those people who are likely to be Scottish taxpayers. Internally, our first information technology release, which is linked to that identification of Scottish taxpayers on our system, has gone smoothly and we have no reported problems with it. The next internal IT round, which will implement the pay-as-you-earn changes on our systems, is on schedule.

As I said, the estimate of the costs of implementation remains a set-up cost of £30 million to £35 million against an original estimate of £40 million to £45 million.

That is the progress on the Scottish rate. Of course, we are very conscious that the Smith commission proposals are coming down the track with the Scotland Bill, and we are staying engaged with that. We expect to be able to implement the proposed changes according to the anticipated timetable for Smith.

The Convener: Thank you very much for that opening statement. I will start with a few opening questions and then bring in my colleagues around the table.

Paragraph 4 of the HMRC update states:

> "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".

You touched on that in your opening statement. How many folk look at www.gov.uk? Do many taxpayers look at it?

Edward Troup: It is heavily used. I do not have any figures for overall www.gov.uk usage. It is not so much an active communication method as a resource for individuals who become aware of or have questions about a particular issue and want more information. It is not the primary source for proactively telling people about their obligations but it is a source that people can go to as awareness of the Scottish rate becomes more widespread.

We believe that www.gov.uk is the natural place that people go to now, and most of the search engines on topics related to Government business will take you to www.gov.uk as the top hit. It is an important core source of information.

The Convener: In paragraph 8 of the HMRC update, you state that

> "in around 85% of cases HMRC held an address for a taxpayer that could be matched against an address held elsewhere."

You go on to detail how you could identify other Scottish taxpayers, and you say that

> "about 98% of the taxpayers for whom HMRC holds Scottish addresses are correctly identified as likely to be Scottish taxpayers."

In paragraph 9, you talk about your plans to write in December to those taxpayers for whom you hold a Scottish address.

What is being done to raise awareness in the rest of the United Kingdom? Clearly, there may be an issue with people who have addresses on both sides of the border and with those who may have an address on the other side of the border.

Is any work being done to remind customers of the importance of notifying HMRC when they move house from south of the border, for example from England to Scotland or from Wales to Scotland? Is anything being done on that side?

Edward Troup: There is no obligation to notify HMRC of your address or of a change of address. I think that I discussed that point with the committee the last time that I was here. We are relying on our own and other data sources to identify when individuals become resident.

Typically with an employee, the employer and the payroll system—and hence the PAYE records—will record a change of address, as indeed happens now if someone moves into the UK from elsewhere. There is no obligation on them to tell us their address in the UK, but a payroll system will pick up the fact that they have a UK address and they will become part of the PAYE system. The same system will apply in the case of the Scottish rate of income tax.

We are not—for value-for-money reasons—proposing to do a marketing campaign in the rest of the UK to tell people that if they move to Scotland, they will need to notify us. We estimate that something like 2.3 per cent of the Scottish population turns over in any year—either through people moving into Scotland or through people moving out of Scotland to the rest of the UK or elsewhere—which is a relatively small number against the totality of the Scottish population.

Sarah Walker is responsible for the operational work and may have something else to say about the UK addresses issue.

Sarah Walker (HM Revenue and Customs): Yes. Because collection of the Scottish rate will depend on where someone's main residence is, the important thing will be to pick up people who move into Scotland and become Scottish residents.

Later this year, we are looking to do some targeted publicity, for example around the Zoopla website, which people who are moving house tend to look at. There will be other targeted advertising to try to pick up such people. As well as using the sources of information that Edward Troup talked about, we are contacting estate agents and solicitors, so that they can remind people who are moving to Scotland that they need to ensure that we know about their change of residence.

As far as the rest of the UK is concerned, we need to contact and inform employers throughout the UK, because an employer anywhere in the UK might encounter someone with a Scottish tax code. For example, a person might have recently moved out of Scotland. Our communications with employers and payroll operators are UK wide, but communications with taxpayers themselves will focus on people in Scotland.

The Convener: I am pleased that you are working proactively with estate agents and so on. I did not think that you would contact every person in the UK, but I suppose that when people get their tax returns they could be told, "Scotland has a new tax system. If you are moving to Scotland, please notify us"—blah, blah, blah. Is that a helpful suggestion?

Edward Troup: First, remember that the majority of people do not fill in tax returns, because their tax affairs are dealt with under PAYE. The self-assessment return will have a box that asks whether someone is a Scottish taxpayer, so that will be an implicit reminder. If someone has moved or is about to move to Scotland they will be prompted, because the question about Scottish taxpayers will lead them—online or through the guidance—to information about whether they should answer yes or no to that question. There will be sufficient prompts in the SA return—if people fill it in properly, as most people do—to capture those people.

The initial challenge is to ensure that the starting database is as accurate as possible.

The Convener: You say in paragraph 12 of your update:

> "HMRC has also worked with the Scottish Government on the possibility of being able to access address information from NHS Scotland records."

Given what you have said about other sources of information, what would that add?

Edward Troup: The background to that is that we have our own database records, which indicate individuals' addresses, but we cannot be certain that they are accurate. You quoted the point about our now having got to 98 per cent confidence. As with any large data sets, the best way to improve ours is to compare it with other data sets. We have been using commercially available data sets, the electoral register and the published address and postcode information from the Royal Mail, which are helping us to improve the accuracy of our data set.

If we had access to the NHS Scotland data set, that would be another data set against which we could check our records, and doing that would no doubt further improve the accuracy of our records. However, that is not an essential part of our checking; no individual data set is essential, but each one contributes to greater accuracy and confidence in the addresses and names that we have.

The Convener: You take a belt-and-braces approach.

Edward Troup: Well, yes. With very large data sets—we are talking about 2.5 million people—we are never going to be 100 per cent accurate. That is just the reality. Apart from anything else, people come and go, as I said, and there are taxpayers who—one way or another—manage to stay off our radar. It is a matter of always looking for additional ways to improve the accuracy of our knowledge and information about the taxpayer population.

The Convener: In paragraph 17, you say:

> "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."

What differential would start to have an impact? Are we talking about 1, 2, 3, 4 or 5 per cent?

Edward Troup: I think that human nature is such that any amount of tax saving creates the inclination in individuals to ask themselves whether there is some way in which they could avoid paying. That is the nature of tax raising. Our experience is that the higher the differential rate and the greater the ease with which it is possible to make the changes to exploit the differential, the more likely it is that those things will contribute to the number of people who will make those changes.

There have been deliberate changes of rate. For example, we cut the duty on unleaded fuel to encourage people to change, and it was easy to change—people just had to pick up a different nozzle at the pump. People did not avoid tax, but they saved tax by making a choice. However, moving your family lock, stock and barrel from Scotland to England or vice versa is a slightly more life-changing event. It will take quite a strong differential to encourage people to move entirely for tax reasons, but if you are buying a house near the border it may be one of the factors—along with stamp duty rates and everything else—that will determine which side of the border you want to live.

11:30

The Convener: You have no x/y-type graph to show where the majority of people would change their behaviour. We have just been to the Basque Country and we got some quite interesting information from the finance minister there. As far as the Basques are concerned, there does not seem to be any impact at all from the differentials in taxation between that part of Spain and the rest of Iberia, even though there are significant tax differentials. It is possible to raise tax to such a level that revenues fall to such an extent that it becomes detrimental to the overall tax take in the economy. I just wonder where that level is.

Edward Troup: Our experience with the wider tax system has been that those individuals who change their behaviour for tax reasons tend to be those who have most to gain, and they are the better off, so it is the levels of tax that apply to the wealthy that are most likely to result in a behavioural effect. It is a matter of fact that such people often have more than one home anyway, and it is a lot easier for them to say, "I'm going to spend seven months in my London home and five months in my Edinburgh home, rather than vice versa," than it is for someone who has one home and all their friends and connections somewhere in Glasgow—it would be slightly more disruptive for them to have to move south of the border.

If I had to conjecture, I would say that, for the overwhelming majority of the population, the sort of differential in tax rates that is likely to come about—as suggested by past experience—will have an almost negligible effect. However, to the extent that there are significant differentials for the better off, that is where we would expect to see a change in behaviour, and we would probably be looking to ask compliance questions about that.

The Convener: I have just one final question before I open up to the committee. I know that everyone wants to ask about this, so I thought that I should get in first. It is about the traffic-light system—I can see that other members are thinking, "Aw, I wanted to ask that." Can you talk us through some of the issues, particularly with the ambers and reds?

Edward Troup: The red, amber and green traffic-light system is a well-used tool in risk management. However, in simplifying things in order to present hot spots, it risks oversimplifying the situation, and risk management is an extremely complex business. It is complex because, before you even start, you need to think of all risks in two dimensions, considering the likely impact of the risk arising—for example, HMRC systems failing completely would have a massive impact—and the probability of that risk arising, which might actually be very low. On the other hand, the probability of not having 100 per cent of names accurate on a register is pretty high, because it is almost certain that we will not have 100 per cent accuracy, but the impact of that is relatively low. Before we even start, we need to look at risks against those two axes. Then there is the element of time. These are tools that should be used practically to help inform where we put our attention to keep the project on track.

The last time I was at the committee, the red-rated risk was about the identification of Scottish taxpayers, which we have just discussed. It was not that it was not going to happen, but it was a relatively high-impact part of the project, and at that point we had not taken the steps that we have since taken to ensure that we can have a high level of confidence about identification. It was right that that risk was red last time. I am pleased that it is not red this time.

The one that is red at the moment—and that is partly because we have very little control over it—is the notification letter, which we will send to taxpayers, or those who we think are taxpayers, in December. We are concerned that we do not have certainty about when we are going to send that letter. In part that is because we are not yet clear about the timing of the Scottish budget. The timing of the letter relative to the timing of the Scottish budget impacts on the letter's content. We are forecasting that that risk will come down, because we expect you to announce the date of your budget—if you have any news on that, I would be delighted to hear it. Once we know the date of your budget, we will be able to determine when we can send the letter and whether we will be able to say what rate has been fixed for the Scottish rate. That is the risk that we are concerned about at the moment. Although we have very little control over when you set the date of the budget and, hence the timing of the letter, we are confident that we will be able to deliver on that.

Perhaps I should pause there, because there are quite a lot of ambers. We might want to pick up some of the amber risks at the same time.

The Convener: I will not go into any of the other indicators, because colleagues might wish to do so. On the last one that you mentioned, as you will know, the spending review is on 25 November and I think that our budget is likely to come out in the first week of January. I do not know whether you are still intending to send out letters in December. Some of them might get lost in the Christmas rush of mail and people might not take as much notice of them—I do not know whether they will or not. I certainly think that the first week of January is the most likely time for our budget to come out.

I will leave it at that to allow other colleagues to ask their questions. John Mason will be followed by Jackie Baillie.

John Mason: You say in paragraph 3 of your submission that employers will already be familiar with the Scottish variable rate. However, we have received evidence that employers were, in fact, not very familiar with it and that they had assumed that there would be no changes; perhaps they are assuming again that there will be no changes this time. Is that a consideration? Are employers really that aware of it?

Edward Troup: I will let Sarah Walker add more detail, but I should first point out that paragraph 3 does not say that employers were familiar with the Scottish variable rate. It says that, because the Scottish variable rate was on the statute book, the functionality needed for it had already been built into most payroll systems.

We recently held a conference for payroll providers and found a high level of awareness of the forthcoming Scottish rate. The combination of functionality in payroll systems for the Scottish variable rate, which effectively transposes into the Scottish rate, and what appears to be a good level of awareness among payroll operators and software providers gives us a level of confidence, but I will ask Sarah Walker to say a bit more about our engagement with payroll providers and software people.

Sarah Walker: The vast majority of employers will use some sort of proprietary accounting system such as Sage to run their payroll, and those systems will have had the functionality for the Scottish variable rate built in. That will allow them to distinguish a code with an S, which will be a Scottish code, and to operate a different tax calculation when they get one of those codes. That is basically all that we are asking people to do now.

At the recent conference of payroll operators to which Edward Troup referred, we held a session on the Scottish rate, and when the person running the session asked for a show of hands on who was aware that it was coming, practically everybody put their hand up. We are confident that the payroll industry is ready for this. Part of the new information that we have put on the internet this week is guidance for employers on how it works. A lot of it is about reassuring them that we are not asking them to do anything complicated; we are not asking them to form a judgment based on their employee's address as to whether they are a Scottish taxpayer. This is something that they are very well used to. They receive a particular sort of tax code, feed it into their payroll system and the right result ensues. That is the reassurance that we are giving employers.

John Mason: In paragraph 5 of your submission, you talk about guidance for "customers", but elsewhere you talk about "taxpayers". Are "customers" different from "taxpayers"?

Edward Troup: No. Customers are taxpayers and taxpayers are our customers.

John Mason: I prefer "taxpayers".

We talked about the fact that you have 98 per cent certainty with regard to the addresses that you hold and that, in 85 per cent of cases, HMRC holds an address for a taxpayer. We have also touched on the fact that the higher-risk people are probably those who are better off and who might have more than one property. Are you targeting them and trying to pin down where they are resident?

Edward Troup: I am not aware that we are targeting them. People on the higher rate tend to fill in self-assessment returns—in fact, they will almost universally do that—so we are likely to have more information on them than we will for what I will call an average PAYE payer, for whom our only contact is likely to be through his or her employer.

Sarah, do you want to say anything about higher-rate taxpayers?

Sarah Walker: We have a high net worth unit, which looks after some of the very wealthy taxpayers and is very much involved in this work. As it will have a customer-manager relationship with those taxpayers, it should know quite a lot about them, including their up-to-date addresses. It is looking at whether we ought to do more to pick up any risks that relate to those people, particularly if, as we discussed earlier, the rate is different. After the end of the year, self-assessment taxpayers—people on higher incomes tend to self-assess—will be asked directly whether they lived in Scotland for most of the year. A positive return will be required from those people.

John Mason: How much trust is required? Paragraph 9 says that

"it will be important to confirm which of these addresses held is their main place of residence",

but paragraph 13 says that

"taxpayers are already able to amend their address using GOV.UK",

which suggests that it is quite easy to change one's address.

Edward Troup: It is quite easy to change one's address, just as it is quite easy to fill in a tax return and put false figures on it. However, that is not a good thing to do, because our compliance work is quite effective. We resource according to risk.

We are not that worried about people giving false information, because the better-off are aware of the consequences. The concern is about ensuring that we have in our net everybody who ought to be there. People are more likely to be tripped up by a lack of awareness than a deliberate misstatement of their position.

I am sure that there will be people who have homes in London and Edinburgh. In fact, I was talking to a director of a Scottish company who, although Scottish, lives in London and spends only a month or two up here. She was rather upset to hear that she will not be a Scottish taxpayer, because she wants to be; I do not know whether that is because she thought that there would be a cut in the rate. In any case, there are clearly people in that category. There will also be people who fill in self-assessment returns and have to answer the question whether, taking into account certain factors, they are Scottish taxpayers. They are likely to be the better-off, who are generally more compliant.

Sarah Walker: It is also worth saying that we expect to repeat the comparison of our address database with external data sets in the future. We will be able to check whether someone is giving us a wrong address by matching it with the addresses that they have given other people—for example, the address where they are registered to vote and those sorts of things. [*Interruption*.]

John Mason: We are trying to work out where that noise is coming from.

Edward Troup: It is not me.

John Mason: In paragraph 11 of your submission, you say:

> "The scan has produced a list of individuals for whom HMRC holds an address elsewhere in the UK".

How long is that list? How many people are on it?

Sarah Walker: There are roughly 20,000 people on it.

John Mason: That is a fair number of people.

Edward Troup: It is, but it is less than 0.1 per cent of the total number on the list—I am trying to do the arithmetic in my head. Perhaps it is 1 per cent.

John Mason: Paragraph 20 of your submission says:

> "If the SRIT is set at 10%, the running costs are estimated to be £2m-£2.5m."

However, if it is not set at 10 per cent, the running costs will be £5.5 million to £6 million. I was quite stunned by the suggestion that the costs would be two or three times more, even if we changed the rate by only 1 per cent.

11:45

Edward Troup: Sarah Walker can give you more details, but the work that she and I have described—identifying the taxpayers, keeping the taxpayer base up to date and making sure that employers are operating the payroll—in a sense provides the baseline or steady state. Until the SRIT changes from 10 per cent, nothing more is needed, because there will be no difference in payments or collections. Effectively, the codes will be exactly the same for Scottish and non-Scottish taxpayers and everything will continue smoothly.

As soon as the rate changes, however, there will need to be a coding exercise to apply different codes to Scottish and non-Scottish taxpayers. Because of the differential payments, we will need to apply compliance to ensure that we collect the correct amount in the different cases. There will also be queries and contact from taxpayers whose tax bill has changed and who will be getting on the phone to ask HMRC what is going on. There might well be issues for employers, too, who will also have to contact us. As soon as the rate changes in either direction, there will be an increase in activity within the system and in the consequential activity of contact with us. All of that will take the level of activity, which is relatively low and steady at the moment, up to a significantly different level.

I ask Sarah Walker to amplify on what actually will be different if the rate changes.

Sarah Walker: Edward Troup has covered the main aspects. The market research that we recently carried out on attitudes to the Scottish rate makes it clear that people will be much more likely to phone us up or raise queries about their income tax if the rate is different than if the rate is the same and the amount of tax that they are paying is no different.

John Mason: If the UK raised its rate by 1 per cent from 20 to 21 per cent, that would go through very smoothly, because it would require payroll providers just to slot in a different figure. Is that not right? Does the fact that we will be doing this through the code rather than through the rate create more of a problem?

Edward Troup: I do not think so, although that, too, will raise questions.

Sarah Walker: A change in the UK rate would have a similar extra administrative cost, because we would have to change people's PAYE codes, and they would be more likely to phone us up to ask what was going on. There would be a similar sort of cost if there were a UK-wide change in the basic rate.

John Mason: But would somebody's code change if the tax rate were changed?

Sarah Walker: It could, because some items would be, if you like, coded out. Not everybody's code would change, but where the tax code was adjusted to recover a precise amount of tax, the code would have to be different depending on the marginal rate that is assumed.

John Mason: Okay.

Edward Troup: Typically, it would happen in the case of benefits in kind that we were notified of at the end of the year. That would give rise to a tax charge for the previous year that would need to be recovered through the tax coding for the following year, and that tax coding would have to be adjusted to reflect the rate at which we would be collecting the amount of the benefit-in-kind charge, which would be the rate for the second or third year. That is where the actual coding change would depend on the status of the taxpayer if there were a different rate in Scotland. The PAYE system is very effective at helping us avoid issuing self-assessment returns to 30 million people, but that makes it quite complicated internally, precisely because it collects the right amount through the coding.

John Mason: Thank you.

Jackie Baillie: I want to return to the highest risk that you have identified, but, first of all, I have to say that I love colours on a chart—they make things wonderfully simple.

The convener was right—you are unlikely to be issuing the notification letter in December. However, I fear that you will not be doing so until you have certainty over the SRIT, and the budget is not actually going to be passed until February. Given that, do you think that there is a significant risk of pressure on your service in the form of a huge number of inquiries over a short period of time, say, from February 2016 until implementation? I absolutely agree with Ms Walker that employers are well aware of what is happening and I know that your communications about payroll have been very good, but the fact is that employers are champing at the bit to tell their employees, and they just do not know what to tell them. Could there be a stage before, in which those people could be used to put out key messages about the Scottish rate of income tax? You could follow that up in February with a letter explaining the rate and so on.

Edward Troup: We will not necessarily leave the letters until after the Scottish budget, although we do want to know when the Scottish budget is going to be. We might well feel that the right thing to do is to issue the letters in December, saying that there will be a Scottish budget and that it might set a different rate. It will be a matter of writing to people, saying that we think that they are Scottish taxpayers, and the letter will go out of its way to say that, if they are, they do not need to do anything. Basically, it will say, "Please don't ring us up." That said, there might be people who, for some reason, think that they are not Scottish taxpayers. We might write to them at a Scottish address, but that might not be their main residence. The letter might have been forwarded to them because they have just moved, or the address might be a holiday home and they just use it for convenience or whatever.

We could still—and might well—send the letters in December. We feel that if the Scottish budget were to take place in December—although you are more or less telling me that that will not happen—there would be a greater level of awareness if we sent the letters around the same time, and there might be more of an impact than there would be if the budget did not happen then. As you have rightly pointed out, if we leave things until February, it will be very close to the implementation date. For us, it will also run into the self-assessment peak, which is around 31 January, and that will put significant pressure on our call centres.

Now that the Parliament has been reconvened, we hope that we will get certainty over the date soon, and we will then make a decision quickly about sending the letters. My expectation remains that we will send them out in early December, but we have not finally agreed that yet.

Jackie Baillie: That is helpful. We, too, are a bit in the dark about exactly when the budget will be. We reckon that the budget process will start in early December, but it will not finish—and a rate not absolutely confirmed—until February. You can still exercise your judgment about maximising the impact on that basis.

I want to ask about advertising. We might know about the Scottish rate of income tax but, when I talk to people in my community, they have no clue what I am talking about. In view of that, are you taking a wider approach than simply sending a letter? How much money are you spending on that activity, and where are you spending it?

Edward Troup: I will let Sarah Walker fill in some of the details, but first of all I must make the overarching point that our responsibility is to ensure that the tax is administered effectively. We are obviously happy to support any wider messaging about the tax, but it is not our role to raise awareness per se. We need to ensure that we have the correct and most accurate set of information possible in order to administer the tax properly, which means that, as far as value for money and direct effectiveness are concerned, HMRC's—and hence your—paying for some billboard campaign up and down the length of Scotland is probably not the right thing to do. After all, we believe that we are already at about 98 per cent accuracy.

As a result, writing to the people who we think are Scottish taxpayers through other soft means—for example, through promoted articles, through conferences or by going through the professional community, the estate agent community and some of the more interesting professions in terms of mobility such as offshore workers, people in the fishing industry and students—will be more effective for us than a wide advertising campaign. At some stage, however—once we have sent the letters and done what we can through soft communications—we will want to have some wider campaigns, and Sarah Walker will fill in the details, to the extent that we have them, about what we propose to do on those campaigns.

Sarah Walker: In the original budget that we shared with the Scottish Government, we had provisionally allowed for quite a substantial advertising campaign, because we thought that we might need it if we did not have confidence in our address data. Now that we have better confidence in that, we do not think that a widespread advertising campaign would represent value for money. That is not because of any constraints on the budget—it is the Scottish Government's budget—but simply because we have to take responsibility for what represents good value for money.

We expect there to be a lot of interest in the Scottish media and the press, particularly around the time of the Scottish budget, on the Scottish rate and the arguments around how it should be set, and we expect to try to build on that interest by, for example, offering information to the personal finance pages in newspapers to explain how it works. We will also offer employers material to put in their newsletters. We will use all sorts of what might be called non-paid-for community channels to put out that information.

As Edward Troup has said, we will look at targeted paid-for advertising later, as and when we think it is necessary, to ensure that we reach any audiences that we think might have been missed. However, I repeat that the letters are our main means of communication.

Jackie Baillie: I confess that I had heard that there were constraints on the budget. What I am hearing from you now is that there is no intention to advertise—unless you need to do so—because you think that you are covered. If I am sitting at home watching TV, there will be no television adverts, and there will be nothing on the radio. There will be nothing of that nature to inform the wider public about this.

Edward Troup: At the moment, we do not plan to do that. As Sarah Walker said, we got the message at a meeting with some colleagues of ours that we had said that there were constraints on our budget. That is absolutely not right. What we said was that we wanted whatever we did to be driven by value for money and the likely effectiveness of the actions. At the moment, television advertising and billboards do not look like good value for money in chasing down what we think is going to be a very small proportion of the population—people for whom we do not have accurate details.

Jackie Baillie: Can I press you on how much you originally planned to spend and how much you are spending now?

Edward Troup: We originally quoted £4.2 million, but that was not all for paid-for advertising. It was for the overall campaign, including the cost of sending the letters. I do not think that we have revised that. We do not have a revised budget and we have not shared one with you or the Scottish Government. We hope that the cost will be significantly less than £4.2 million, but our written communications—our letters—come with quite a significant cost.

Sarah, do we have a breakdown of where we are on the £4.2 million?

Sarah Walker: We do not have a specific figure for paid-for advertising, because we are still trying to work out the best targeting for that.

Jackie Baillie: Could you supply the committee with the revised figure?

Edward Troup: We can tell you where we expect to be. We think that the impact of the letters will be affected by the timing of your budget, although that is not to say that, if you have a January budget, they will not be as effective. There might be a second bite of the cherry. If we send the letters in December without an indication of the rate and then there is publicity around your budget, that will be an opportunity to have a push through the professional and other trade journals and the wider non-paid-for media such as newspaper articles. At that point, we will be able to judge how well we are doing and hence what we want to spend on further paid-for advertising.

We can give you a range for roughly where we think we might be, but I am not sure how helpful that will be. We have shared with the Scottish Government an outline of the principles of the communications campaign, which you might have seen.

Jackie Baillie: It would be helpful if the committee could see that. Any information that you can provide on finance would be helpful, because value for money concerns us, too.

I move on to my final question. Again, I might not have understood the first table in your update very well. IT projects are notoriously difficult to implement, so I share the pleasure at what you are telling us about the initial implementation, but I also have a slight concern. At the bottom of page 7, you mention a

"risk that the Project does not manage its relationship and dependency with the Digital Programme."

What is that risk and what have you put in place to mitigate it?

Edward Troup: Sorry—I am just trying to track through to what you are looking at.

Jackie Baillie: It is in the helpful table at the bottom of page 7. It is the last item in your risk register.

12:00

Edward Troup: Oh, right. Yes. Do you want to talk about that, Sarah?

Sarah Walker: Yes. We have a major programme at the moment of implementing digital services for both personal taxpayers and business taxpayers. That is a big preoccupation for the department. We need to make sure that what we are doing for the Scottish rate, which is slightly more of a niche project, fits in with the overall plan and makes the best use of the new digital services that we are putting in place. For instance, we are putting in place personal tax accounts for taxpayers so that they will be able to, in a secure environment, log on to their own records online and update them. Clearly, that will be a really useful thing for us to use to help people to update their addresses and to see how much of their tax is being paid to the Scottish Government and how much is for UK services. We want to make use of those digital services and we need to make sure that we are well plugged into the work that is going on elsewhere in the department to produce those new services for people.

Jackie Baillie: How confident are you that we will not be disadvantaged in terms of accessing those new services?

Sarah Walker: It is going really well, which is reflected in the fact that the risk is coming down.

Edward Troup: I will pick up a point that Sarah made. There are obviously always risks in any large system, but the digital services will be a positive opportunity because we, not the taxpayer, will pay for the running of personal tax accounts. It will not be a cost for Scottish taxpayers and it will be an opportunity that will allow them to have more access. At the moment, for example, people can change their address online but cannot see their personal tax affairs, because they do not have a personal digital account. When we get those accounts operating, that will help the operation of the Scottish rate.

Jackie Baillie: Thank you both very much.

Jean Urquhart (Highlands and Islands) (Ind): I want to continue with the theme of communication, but in terms of businesses rather than individual taxpayers. The taxation issue is certainly not the talk of the steamie in any of the areas that I represent, but you believe that there is a really good understanding of it among payroll managers, who use Sage and other programmes. I am concerned about the many people who are responsible for PAYE systems in Scotland—particularly in the Highlands and Islands—who are very small employers with three or four staff and are likely still to be operating a manual wage system. Sage will not be known to them. What kind of communication about the issue can we expect from business organisations? The Federation of Small Businesses, for example, has a large membership across Scotland, and there are similar trade organisations here. Is it better that they deliver the message in newsletters or other ways? Will there be a series of workshops with them in order to spread the word?

Edward Troup: Can I step back a bit? If there is no change to the Scottish rate in the first year, in a sense we will have longer to continue to engage with those employers, because they will not need to do anything different. Their tables will change, because they will change with the personal allowances et cetera this year. In a sense, it will not be a huge issue for them. If there is a change in the Scottish rate and the budget, whenever it is, sets a rate different from 10p, we can anticipate a huge amount of interest from individuals and employers, because they will read that the tax rate has changed and they will want to know what has happened. That is why there will be costs for us, because they will ring us up. At that point, I think that all employers will become extremely aware of the need to do something.

We obviously have to plan for both those scenarios, but particularly for the change-of-rate scenario. Because we have engaged well with the payroll software providers, I think that we can be confident that, if there is a change of rate, employers who use software will be well taken care of. They will be reassured by Sage or whatever programme they use that any change has been taken account of in their software and that it will all be fine.

Those who are still doing PAYE manually—I do not have a figure for them—will get communications from us, because if they are doing it manually they will be in communication with us. They will get communications that will update their tables to reflect where they are. I suspect—although I may be wrong—that for a small employer in the Highlands and Islands who does PAYE manually there would be no question about the residence of their employees. I imagine that those employees would all be Scottish resident and relatively local, and such an employer would not face the complexity of having different codes for different employees. I suspect that, because manual payroll operators are likely to have all Scottish employees, they will have a simple set of tables for those employees.

Sarah Walker: As I have said, from April, all employers across the whole UK will, potentially, have to be able to operate a Scottish S code. We communicate with all employers through the "Employer Bulletin", which goes out regularly and has contained articles about employers' needing to be ready for the Scottish rate. We are also speaking to organisations such as the Federation of Small Businesses, and we are talking to the accountancy profession about it because a lot of small businesses will consult their accountant about their PAYE system and how to operate

PAYE. We are doing everything that we can. We have put on the www.gov.uk website more material that is specifically targeted at employers, and they can use that for reference. We are using all the communication channels that we have to ensure that all employers are ready for the change.

Jean Urquhart: Maybe I am missing something. If the rate changes in the budget, a lot of people will be interested in that, particularly if they are going to pay a higher rate of tax. However, the Scottish rate of income tax is just that—it is already a separate tax, whether it is 10p, 11p or 13p. People will obviously have an emotional interest in how much tax they pay, but I cannot quite see that whether the tax is 10p or 11p will make a massive difference to its collection in practice. John Mason noted your final point, on page 6 of your submission, about the dramatic increase that there would be in the cost of collecting the tax if it was set at above 10p. However, surely the Scottish rate of income tax must be identified in your offices.

Edward Troup: That is the point. If the rate is not changed from 10p, the amount of tax that is collected will be entirely unchanged. The basic 20p rate of UK tax will be replaced by a 10p rate of UK tax and a 10p rate of Scottish tax, but the aggregate amount will remain exactly the same, the employees will see exactly the same deduction—all things being equal—and the same amount of tax will be paid. The employers will, in effect, do the same thing. The work will have to be done by us, because we will have returns for Scottish taxpayers that are designated by the S code and we will, through our systems, have to aggregate out how much tax at the Scottish rate has been collected. For the first two years, because of the transitional arrangements, even that will not impact on the amount of money that gets adjusted through the block grant and paid across; nevertheless, we will do those calculations. We will do all that work on the basis of the S codes. For the employer, if the rate does not change from 10p, nothing at all will change in what they have to do beyond their having to ensure that they have the S and not-S designations on their systems.

However, if the rate changed, a different amount would be collected. If the rate went up to 11p or down to 9p, 21p or 19p in the pound would be collected, which would represent a change in the amount of tax being collected and a change in the deduction that the employee would see. We would still have to do the same work behind the scenes, but that change from the 10p rate, rather than the introduction of the 10p rate, would cause—I will not say "challenges"—interest, activity and questions among employees and businesses.

Jean Urquhart: I am not sure that I understand the difference. I am imagining tax collection involving the Inland Revenue delivering bags of money to Scotland—it is impractical; like a kind of cartoon sketch. Whether the sum is 10p or 11p does not seem to make a difference. I still cannot determine the costs that you are relating to the collection of that or the differential from the employer's point of view. If an electronic system is set up to collect an S tax or an E tax—for want of better expressions—then, presumably, it will work in exactly the same way.

Edward Troup: It will do. Leaving aside the manual operators and focusing on the electronic side, which concerns the bulk of people, the majority of the additional cost will concern the fact that people will see their tax bills changing and will have questions about why that is happening. To be honest, the system might not operate correctly in every case—for example, because people have been wrongly designated as Scottish taxpayers due to a house move or whatever. That will create activity, and that is where the additional work and the additional burden arise.

With regard to the example of where the rate does not change, it does not matter—except to us, because we need to know—whether someone is correctly or incorrectly designated as a Scottish taxpayer, because their tax burden remains exactly the same.

Jean Urquhart: Would we have the detail of that difference when the time came? I mean the increase in the cost—presumably we are paying for that.

Edward Troup: Yes. We would continue to provide a breakdown of costs.

Mark McDonald: I have a couple of questions. The first concerns the differential that the deputy convener and Jean Urquhart touched on. Were those additional costs to materialise, would they be absorbed within HMRC? I have not seen any sort of recharging system mentioned in any of the papers, so I assume that that would not happen.

Edward Troup: Sorry, but which additional costs are you referring to?

Mark McDonald: You have said that, if the SRIT was set at a level other than 10 per cent, the costs might be between £2 million to £2.5 million and £5.5 million to £6 million. Will those costs be absorbed within HMRC?

Edward Troup: No. Those costs will be re-charged to you. We absorb all the fixed costs of running HMRC. The costs that are recharged under the agreement on costs are costs that are specifically identifiable and are identified. They are audited and recharged to you.

Mark McDonald: And those additional costs remain the same irrespective of the rate above 10 per cent that is applied. There is no sliding scale.

Edward Troup: The numbers are estimates, so the cost might not be exactly that amount. The additional cost arises from the change, and whether the rate is 12 per cent, 15 per cent, 9 per cent or 6 per cent, it will not make a material difference to the additional costs. The costs will be what they are. The numbers are not a quote, and they are not tax linked. They are our estimate of the cost of the additional activity that will be specifically attributable to servicing Scottish taxpayers and employers as a result of the Scottish rate change.

Mark McDonald: My next question is about the risk register. It has been a long time since you last appeared before us, so forgive me if my recollection is incorrect, but I seem to recall that I questioned where the numbers sat in terms of probability and impact and I asked for those details to be given to the committee. Would you be willing to do that? When we look at the information in the current format, we see that certain things show up as amber or red, which sets alarm bells ringing. However, when we look at the probability or the impact, there is less concern.

Edward Troup: I am sorry if we failed to follow up on something that I said that I would do last time. I will make sure that we do that this time.

Mark McDonald: I could be recalling incorrectly, but I seem to remember asking for that information.

Edward Troup: The red, amber and green colours, which relate to the numbers, are based on a grid that concerns probability and impact. There is a standard convention that determines which of the corners of the grid we mark red, amber and green. We can certainly share that grid with you so that you can see how the colouring relates to the probability and impact scores that the numbers have. However, as I said at the outset, giving one of three colours to figures as complex as these risks oversimplifying the position quite dramatically.

12:15

Mark McDonald: Sure—I appreciate that.

Annex B shows the previous year's risk matrix, and some of the indicators have changed marginally. The obvious change is the risk that has gone from red to amber, but that is only because of a scoring difference of 1. There has not been much change in the intervening period, yet in the current matrix most of the risk scores are forecast to drop quite materially. If there has not been much change since the previous period, what leads you to assume that those forecasts will materialise?

Edward Troup: Sarah Walker can add some details, but I have a list of the risks that have changed since the previous matrix was produced. Five risks that were on the previous matrix are not on the current list. In other words, the confidence that we expressed last year that the risks were coming down and that risks would be resolved has been fulfilled, and we have taken five risks off the risk register. There are one or two new risks. Sarah might be able to call them out to me.

The document is dynamic in the sense that we have been moving broadly—or rather, quite firmly—in the direction of improving the management of the risks and landing the project.

Sarah Walker: Some of the changes might relate simply to the stage that the project is at. We are moving to a point at which some of the risks are likely to either crystallise or not.

In recent months, we have improved our preparedness for implementation, but we have perhaps not been able to form a view as to how likely some of the risks are to reduce. We are now moving into the implementation phase, and things will start to change pretty quickly. Some risks have changed between the previous matrix and the new one, and some new risks have arisen—for example, the risk regarding the timing of the Scottish budget. The document is definitely dynamic.

Mark McDonald: An example is the third point in the current register, which is:

> "There is a risk that - the Project does not keep abreast of wider transformational change which could result in the solution not sitting within the HMRC operating model circa 2016."

Looking back at the 2014 figures that you have given us, I note that that risk was showing as 13, on the amber scale, and it is now showing as 14. I appreciate that the change is probably marginal, although I do not know whether it relates to increased probability or increased impact. However, the forecast is that that area will be A-okay and the risk indicator will be green by the end of the process. What leads you to that conclusion when the movement that has taken place appears to have involved increased rather than decreased risk?

Edward Troup: The increase in the risk relates to the fact that we have a spending review coming up and our financing—and, in a sense, HMRC's operating model—is always up for review at that time. There has been increased uncertainty over the past six or seven months about our operating model and the structure of the department as we move forward.

I remain confident that the spending review will give us a sustainable and stable transformation model that will bring that risk down, but until the review is out there and we have settled our internal budgets for our transformation and plans for the next five years—or at least the next three years—I cannot be certain of that. That element therefore remains in the document. It has been a bit more worrying during the year because of the uncertainty around the spending review, but I remain confident that it will come down on the right trajectory.

That teases out some of the difficulties and subtleties within those risks. In a sense, it is good to have the challenge, but what is important to me as the accountable officer in the department is that the risk register is maintained and that each of the risks is—as I feel it is—being actively managed. If we have red ones, I worry about them, but I am more concerned to know that there is someone in Sarah Walker's team or in the delivery teams who is on top of the individual risks and is driving them down, and I am satisfied that that is happening.

Mark McDonald: I appreciate that. Getting the deeper information would allow me to look at probability versus impact.

My only other question is about the control effectiveness. I assume that the reason for the very low control effectiveness in relation to the timing of the letters is that it is determined by the timing of the Scottish Government's budget, which is not something that you have control over. Where it says "Moderate", is that because there are some factors that are outwith your control and some that are within your control?

Edward Troup: I am looking at the ones that are moderate. Yes—absolutely.

Richard Baker: To ensure that there is a smooth transition to the SRIT, it is important that there is the right exchange of data—and ease of exchange of data—between you and the Scottish Government, particularly at an official level. How are you ensuring that that takes place? How often are you meeting? What discussion channels do you have? Are you satisfied that you have all the data that you need and that there is willingness to co-operate? Is that being reciprocated, or are you confident that it will be reciprocated?

Edward Troup: We have a very good relationship with Revenue Scotland and the Scottish Government. Indeed, I am going to see them this afternoon, as I generally do when I come up here. However, I am not sure that, when it comes to running the SRIT—which, although it is a devolved tax, will be administered by HMRC—we are dependent on the Scottish Government for a huge amount of data exchange. Sarah Walker might correct me.

Sarah Walker: We are not.

Richard Baker: I am thinking of things such as national health service records, which you mentioned, and the timescale for the budget. There might be issues that the Scottish Government wishes to discuss.

Edward Troup: We cover both of those issues. The position on NHS data that is held by the Scottish Government is the same as with any other data set holder. We say, "Can we look at the data? It will help us." The fact that we have not done that in the case of NHS records does not mean that there are not good relations.

The timing of the budget is the timing of the budget. We work closely and share our proposals for publicity on the SRIT all the time, and we have been closely in touch with the Scottish Government on the devolution of the other two taxes that Scotland has already taken control of.

Sarah Walker: On the point about regular contact, the Scottish Government is formally represented on our programme and project boards, which meet monthly. In addition, I have a formal catch-up with Sean Neill, who was here earlier, at least fortnightly and often more frequently than that.

We have an open dialogue and I am happy with the co-operation and help that we are getting from the Scottish Government. For instance, it is important for us to co-ordinate the messages that we are giving about the Scottish rate with other publicity and communications that the Scottish Government carries out.

There is a chance that people who have questions about the Scottish rate will phone up Revenue Scotland rather than us because they think that it will be operating the tax. We therefore work closely with Revenue Scotland to ensure that it has the right information and can pass inquiries on to the right place in HMRC.

Richard Baker: That is helpful.

The Convener: That appears to conclude questions from the committee. Are there any further points that you wish to make?

Edward Troup: No. I just look forward to hearing about the timing of your budget.

The Convener: We all want to hear about that. Thank you for answering our questions so comprehensively.

At the start of the meeting, the committee agreed to take the next four items in private.

12:23

Meeting continued in private until 12:38.

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