The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 9 December 2015

Session 4

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FINANCE COMMITTEE
32nd 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:

Derek Croll (Scottish Parliament)
Paul Grice (Scottish Parliament)
David Lonsdale (Scottish Retail Consortium)
Susan Love (Federation of Small Businesses)
Liam McArthur MSP (Scottish Parliamentary Corporate Body)
Rain Newton-Smith (Confederation of British Industry)
David Watt (Institute of Directors Scotland)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance Committee

Wednesday 9 December 2015

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the 32nd meeting in 2015 of the Finance Committee of the Scottish Parliament. I remind everyone present to turn off mobile phones, tablets or other electronic devices.

We have received apologies this morning from Jackie Baillie MSP.

Our first item of business is to decide whether to consider in private at our next meeting our work programme and a draft stage 1 report on the Scottish Fiscal Commission Bill. Do members agree to do so?

Members *indicated agreement.*

Draft Budget Scrutiny 2015-16

09:30

The Convener: Our second item of business is to take evidence on the Scottish Parliamentary Corporate Body's budget proposal for 2016-17. We are joined for this session by Liam McArthur MSP, who is supported by parliamentary officials Paul Grice and Derek Croll. I welcome our witnesses to the meeting and I invite Mr McArthur to make a short opening statement.

Liam McArthur MSP (Scottish Parliamentary Corporate Body): Thank you, convener, and good morning, colleagues. I thank you for the opportunity to present details of our budget submission for 2016-17. The budget covers the first year of the new session of Parliament, and the SPCB considers that it reflects a realistic position for the challenges that we are likely to face. Over the current parliamentary session, the SPCB has successfully delivered a programme of savings that has achieved 10 per cent real-terms budget reductions from the 2010-11 baseline to 2015-16. During that period, staffing in the parliamentary service has reduced by more than 10 per cent. At the same time, we have consistently delivered against our strategic plan and supported demanding programmes of parliamentary business.

The next session, of course, will bring new challenges. In order to meet those, we have set out a total budget submission for 2016-17, which is contained in the letter from the Presiding Officer. The headline figures include an increase of £6.8 million from the 2015-16 budget. The additional cost pressures are largely attributable to the need to address one-off election costs in 2016-17 and to provide the resources for handling the new powers that the Parliament will begin to exercise in the new session. The latter category includes an increase in the staff support provision available to MSPs, which was approved by the Parliament on 10 November. If we exclude MSP and office-holder costs, and the SPCB's central contingency, the remaining directly controllable budget for parliamentary services shows a modest £318,000 or 0.7 per cent increase on the comparable 2015-16 budget.

In relation to pay, our budget submission is based on a continuation of the prudent pay restraint that we have shown previously. We have not yet commenced negotiations with the trade unions on 2016-17 pay for SPCB staff but, for budgetary purposes, we have assumed a modest increase in line with other public sector pay increases. The salary costs for 2016-17 include the impact of a 2 per cent increase in employers' national insurance contribution rates relating to the state second pension. For the parliamentary service, that adds approximately £460,000 to the annual pay bill.

As reported to the Finance Committee last year, the Scottish Parliament salaries scheme has been amended to replace the previous link to MPs' salaries with a direct link to public sector pay rises in Scotland, using the annual survey of hours and earnings published by the Office for National Statistics. That resulted in an increase of 0.7 per cent in April 2015; using the same index, an increase of 2.7 per cent will be applied in April 2016.

In terms of project expenditure, as 2016-17 is an election year—I am sure that colleagues will not need any reminding of that—the budget is strongly focused on projects to set up the required facilities for members at the start of the new parliamentary session. Examples of the projects or programmes planned for 2016-17 are the provision of information technology equipment for newly elected members and the updating of IT systems; and office equipment and associated changes following the election. Work on the service yard project, at this early stage, continues to run to schedule and within budget, and the majority of costs are expected to fall within the current financial year.

Turning to the commissioners and ombudsman office-holders, as members are aware, the SPCB is charged with the oversight of those bodies, and the Finance Committee has always taken a keen interest in that area of our budget. The proposed 2016-17 budget for office-holders amounts to £8.4 million, which represents a modest increase of £75,000 or 0.9 per cent on the approved 2015-16 budget.

We have increased the central contingency for the office-holders by £50,000—to £350,000—to allow flexibility, should it be required, for additional staff for the Scottish Information Commissioner and the Scottish Public Services Ombudsman, both of whom have requested additional staff to meet increased workloads. That is still to be considered by the SPCB. The contingency funding also meets requests due to additional pressures such as legal costs.

We welcome the involvement of other committees in scrutinising aspects of the various office-holders that are not within our remit. For example, over the past year, the Education and Culture Committee, of which I am a member, has been looking at the work and performance of the Children and Young People's Commissioner Scotland.

Within its bid, the SPCB is proposing a contingency of £4 million, which is an increase of £3 million from the 2015-16 contingency of £1 million, to cover the one-off costs associated with the 2016 election—the actual cost of resettlement and MSP staff redundancies at the May 2011 election amounted to just over £3 million—and also a prudent contingency for emergencies and emerging cost pressures from the additional powers that the Scottish Parliament will assume during the next session.

We believe that the use of contingency to budget for those cost pressures is a realistic and prudent approach, but I point to the fact—perhaps by way of offering some reassurance—that the SPCB has a good track record of handing back resources when it is in a position to do so.

Looking ahead to future challenges, I note that, as we set out in our submission, the SPCB has submitted its budget to the Finance Committee in advance of the publication of the draft Scottish budget on 16 December. The draft budget will tell us more about future years' budget pressures, and the SPCB will respond accordingly. In a year's time, in our 2017-18 budget submission, we will ensure that costs continue to be kept under control and that we take into account impacts from, for example, the Scottish budget spending review and the additional powers that are to accrue to the Parliament.

I put on the record the corporate body's appreciation of the work that the chief executive Paul Grice, Derek Croll and the other members of the team have done in preparing the SPCB's 2016-17 budget submission. I look forward to answering any questions that the committee has.

The Convener: Thank you for that opening statement, which was very helpful. As you will be aware, I will start with some opening questions and I will then open out the session to colleagues round the table.

In your opening statement, you said that the increase in the contingency from £1 million to £4 million is to cover

"the one-off costs associated with the 2016 election ... and ... a prudent contingency for emergencies and emerging cost pressures from the additional powers that the Scottish Parliament will assume during the next session."

Will you talk us through the split between emergencies and the additional cost pressures?

Liam McArthur: On the additional powers, we are budgeting for about £0.5 million. That is largely taken up by the additional costs that are anticipated from committee and chamber time. There is also an expectation that there will be additional pressure on the research resource as a result of members wanting more information in the areas of the new powers that we will assume.

Also factored into next year's budget is the increased staff allowance for MSPs, which is in part recognition of the increasing pressure that will come to MSPs as a result of the additional powers.

As I said, the bulk of the contingency is taken up by the anticipated £3 million cost of resettlement, staff redundancies and all the rest of it. It is important not to second-guess what will happen in May but, on the basis of the number of members who have already indicated that they will be standing down, and using the experience from May 2011, we think that the allowance that we have set aside for that in the contingency is a reasonable and prudent amount.

Paul, do you have anything to add?

Paul Grice (Scottish Parliament): No.

The Convener: Thank you for that. You mentioned the change to the members' expenses scheme from 6 May 2016, as part of which the staff cost provision will be uprated from £62,300 to £85,000. How does that compare with the provision in Wales and at Westminster?

Liam McArthur: We can certainly provide the details of that. The feeling was that we were out of line with Wales and Westminster on staff provision. As a Parliament, we have decided to separate the link between Westminster and the Scottish Parliament for MSPs' pay. There has been a period of growing apart in terms of the way in which allowances are structured here and the way in which they are structured at Westminster and in the Welsh Assembly, and we used that to inform some of the discussion that we had on uprating staff allowances. We were conscious that we needed to make a solid case for what we felt MSPs required, which took into account the Parliament's commitment to being a living wage employer. We also recognised that the Parliament was taking on additional powers, which would be reflected in increased staffing requirements. We felt that asking for the equivalent of three full-time staff was a reasonable request to make, and obviously the Parliament backed that last month.

We can provide the figures for Westminster and the Welsh Assembly, but we would caution the committee that direct comparisons can be a little difficult because of the way in which our allowances and whatnot are structured. We may do better in some areas than our counterparts in Wales and less well in others. Ultimately, we need a set-up that meets the needs of MSPs in discharging their duties as parliamentarians and as constituency and regional representatives.

The Convener: I understand that Welsh and Westminster members' allowances schemes will be higher.

In deciding the figure, did you take security into account? Some of my colleagues do not like to have one member of staff on their own in a constituency office. If you have only two members of staff, there is no cover for sickness or holidays. When you looked at whether you could fund three members of staff, was that taken into account?

Liam McArthur: The calculation was made on the basis of three full-time equivalents. Each member has to take decisions on their staffing complement and where that is based. Across the 129 members I suspect that there will be, if not 129 staff structures, a wide variety of staff structures.

We were conscious of security considerations, but ultimately it is for members to decide how many people they employ, where they employ them and how they manage holiday periods and other periods. If a member is concerned about having a single member of staff in an office, there might be ways of relocating temporarily another member of staff from their Holyrood office to cover a period. That is something that we need to bear in mind, but it is not necessarily something that the corporate body can second-guess.

The Convener: The revenue projects budget shows a decrease of 23.1 per cent, from £3.9 million to £3 million. Last year, in the indicative forecast for 2016-17, the figure was going to fall from £3.9 million to £2.2 million. Why did it decrease to £3 million and not the £2.2 million that was forecast in the 2015-16 budget?

Liam McArthur: The closer we get to the point at which the budget will be spent, the clearer the line of sight that we have on what the need will be. There is an element of that. We assessed the projects that will be taken forward under that budget—providing new IT equipment and facilities management equipment for new and returning members—and we felt that sorting that out was better done over the first year of the parliamentary session. Therefore, that is what we factored into this budget, which comes in at £3 million as opposed to £2.2 million.

Derek, do you have anything more specific to say on that?

Derek Croll (Scottish Parliament): I think that that covers it, really. The project budget is split over revenue and capital. Part of the thinking was that providing new equipment but not upgrading the software at the same time is an inefficient way of handling it. It is geared towards providing that all in one go.

09:45

The Convener: We have talked about rates over the years. The SPCB has been very successful at reducing the rates burden on the Parliament. What further scope is there to reduce the rates bill? It is still £3.9 million, which is about half the total property costs.

Liam McArthur: You are right, convener. We have had a bit of success in the past in getting those figures down, but we would not necessarily want to factor that in as a gift that keeps on giving. They are what they are. Paul Grice is probably closer to the negotiations that take place on that.

Paul Grice: You are right, convener. We had one particular success, where we pushed back. We think that there is potential in the current round, but at the more marginal level, where we might just get a smaller reduction. Those negotiations are currently taking place. When we present our budget for next year, we will be able to confirm how those negotiations have gone. Although any reduction will not be of the order of magnitude of the previous reduction, the current negotiations might realise some modest savings. It is something that we look at every year because, as you rightly say, it is such a big chunk of expenditure. If there is news earlier than that, I would be happy to write to the committee with confirmation of that.

The Convener: That is very helpful. What was the reduction in rates last time?

Derek Croll: It was about £900,000.

Paul Grice: It was very significant. It was a long process but with a good outcome at the end.

The Convener: You say in your paper that

"The directly controllable costs of the Parliamentary Service are budgeted at £47.3m".

As we know, the increase of £3.318 million is more or less taken up by the increased contingency, which we have discussed. The £318,000 represents an increase of only 0.7 per cent. How have you been able to keep to such a low level of increase? What measures have you put in place to ensure that that is kept so tight?

Liam McArthur: In recent years, I have been able to come to the committee and talk about the way in which, on the back of a thoroughgoing review, we have been able to bring down costs and, in fact, front-load some of that reduction. However, looking ahead, as a result of an election year and increases in the powers that the Parliament is taking on, it was inevitable that the budget would go up. That underscored the need, where possible, to take an even more rigorous look at areas of spend that we could either manage down or at least keep consistently flat.

As Derek Croll indicated, we have looked at some of the project spend. At the start of a parliamentary session, there is certain expenditure on IT and facilities management that it would not make sense to delay, as that would disrupt the work of individual MSPs and the Parliament and would probably end up costing more.

There are a couple of areas in which we have been able to delay expenditure. The phone system in Parliament is due for review at some point but that is not necessarily time critical, and I think that there was a feeling that that could be delayed. We have been able to push back some of the IT roll-out—the roll-out for parliamentary staff, not the roll-out for members—a bit without causing huge disruption. Obviously, there are staff who are currently on the system, unlike new and returning members whose needs in terms of that IT are more pressing. Therefore, we felt as if we could probably delay the IT roll-out for staff without causing too much disruption to the workings of Parliament.

Paul Grice and Derek Croll may be able to point to other examples but, across the board, we have been very conscious of the fact, while maintaining our view that budgets are tight and that we need to play our part in sticking to them, that nobody—neither members nor members of the public or witnesses who access the building—would thank us for making cuts in expenditure that resulted in the Parliament not functioning as it should. As I said in my opening remarks, we believe that we have been able to set a budget for 2016 that accommodates the changes and additional pressures without running the risk of causing that sort of disruption.

The Convener: I have one final question, after which I will open up the discussion to colleagues around the table.

Utility costs have increased by 2.8 per cent, and there are a number of issues regarding how we can reduce those payments. It has been a hobby-horse of mine how we can overcome some of the technical hurdles and make reductions on the basis of, for want of a better term, bulk buying. Where are we in that process?

Liam McArthur: I will bring in Paul Grice on the detail of that. Generally speaking, the corporate body has been particularly encouraged by the progress that has been made through our environmental audit. Whether that has involved waste reduction or progress in reducing gas and electricity costs, we have a reasonable story to tell, although we are not helped by increases in energy costs, which go some way to neutralising the benefits that we are seeing. Nevertheless, the Scottish Parliament has performed fairly well in those areas in the past three or four years, and we are on target to meet the targets that we have set ourselves for 2020.

On bulk purchasing—

The Convener: "Economies of scale" might be a better term.

Liam McArthur: Indeed. We have reflected on some of the ideas that you have put forward in conversation, convener, and we have been able to take advantage of some of them. We put on record our thanks to you for that.

There is a review under way that is exploring better use of direct debits, which is due to report back to the corporate body early in the new year. We will perhaps be able to offer further thoughts on that issue, and I will be happy to write to the committee on it.

I do not know whether Paul Grice has anything to add to that.

Paul Grice: No. You raised the idea of that report with me, convener, and we have been looking at it actively. The technical challenge is in setting up direct debits on the Parliament's own account. That is a tricky area that Derek Croll and his team have been looking at. As Liam McArthur says, we will be happy to write to you in the new year, once we have reported back to the corporate body.

The Convener: That would be appreciated. Thank you for that.

John Mason (Glasgow Shettleston) (SNP): I accept the point that there are extra costs in an election year, not least because some offices will close and others will reopen. Do you make efforts to recycle equipment or is there pressure to renew everything just because there are new MSPs?

Liam McArthur: I would expect every effort to be made in that regard, although I envisage certain problems arising in recycling certain equipment and would question the extent to which such equipment is recyclable.

John Mason: In my office, most of the computers are five years old, so it is perhaps time to replace them. However, one was replaced quite recently because it got wet, and the new computer would not need to be replaced—it could be used either in my office or in somebody else's office.

Liam McArthur: That is a reasonable supposition. Given the context that we are operating in, I would expect that to happen.

New and returning members' expectations for equipment and the like will not necessarily fit exactly with those of members from the previous parliamentary session. In fact, individual member's requirements evolve. It may well be that even returning members would take the opportunity to say that they would want to configure things slightly differently and they see the election as a sensible break point.

I do not know whether Paul Grice has any comments on recyclability. I absolutely agree with John Mason's proposition. I cannot respond to a question suggesting that our record on environmental reporting is moving in the right direction one minute and then in the next answer say that we would ignore that entirely if we end up with a certain level of spend.

Paul Grice: We are better able to reuse furniture and we do that wherever we can. Information technology is tricky. We would tend to recycle that—we have a contract for that.

The other problem that we face with elections is the simple one of timing. Outgoing members typically take two or three months to wind up their affairs, but the new members want to get started straight away.

Working within all those constraints, we try to reuse equipment. As I said, it is often the case that furniture is better suited to that. We have to be realistic with IT equipment. We tend to use the recycling contract so that the equipment gets further use elsewhere, but we would tend to supply new equipment to returning members.

John Mason: Thanks very much. A reason that you gave for increasing costs is that the Parliament is getting more powers. That has been mentioned a few times. How does that increase happen? The Finance Committee will continue to meet for, presumably, three or four hours every Wednesday morning, so there is no extra cost, even though the Parliament has more powers. It just means that we will spend more time looking at income tax and a bit less time looking at land and buildings transaction tax. Why will there be extra costs because we are taking on more powers?

Liam McArthur: There are a couple of points to make in that regard. It may well be that the Finance Committee has the ability to accommodate the work that it needs to carry out within the timeframe of three-hour weekly meetings. Over recent times, we have seen committees meeting more often and for longer. To some extent, that may be a reflection of the stage that we have reached in this parliamentary session when legislation must be pushed through and inquiries need to be completed. The extra work at that time is inevitable.

From the work that we have done, which, to some extent, has been done on the basis of the best estimates that we can make, the feeling is that there will be additional time pressure for committees. There may even be additional time pressures for sittings in the Parliament. It is those areas that would bring significant additional cost.

As I mentioned, there is also an expectation that additional pressure may be brought to bear on the research facilities of the Scottish Parliament information centre. We have estimated the increase to be about half a million pounds. If we look beyond 2016-17, it is not difficult to imagine that those cost pressures will increase. By that time, we will have a better sense of how the committees will operate and how chamber business will be affected by the new powers.

We think that the half a million pounds that we have budgeted for next year is a reasonable estimation of the additional time pressures on committees and chamber business, as well as the research function to which I referred.

Paul, do you want to add anything else?

Paul Grice: No, I think that you have covered the position. We have been through a pretty rigorous process across the organisation to try to establish the cost. We have left funds in contingency because the needs are not clear—there is even some timing uncertainty.

There is a likelihood of more parliamentary time being required to deal with business, which will push up costs in a couple of specialist areas. We have hitherto not needed a lot of specialist support around tax or social security, so there is a modest amount of funding for that, too.

We will have to take stock with members. When we appear before you this time next year, we will be in a much stronger position. At that point, I would hope to be able to provide firmer plans, rather than to put an amount into the contingency fund. To underline Liam McArthur's point, if it turns out that we do not need that money, it will sit in the contingency fund. It will not be used unless it is necessary to do so and, if it is not used, it will be returned. On balance, that is the prudent approach.

10:00

John Mason: I understand that our needing more skills so that we can cover a wider range of subjects is an argument for extra costs; I just would not want the principle to be established that every time we get an extra power we add to the costs. Okay, we might need extra time, with committees meeting in the afternoons and that kind of thing, but we might also spend less time on other things, so there would be cost savings elsewhere.

Liam McArthur: Each committee will make a decision in that respect. Work is on-going on whether the committee structure remains appropriate for the work that we need to carry out. Paul Grice might be here in 12 months' time—whether I will be here sitting next to him remains to be seen—and in 12 months' time we will have a clearer picture of the structural change that is likely to be involved and a clearer idea of the cost pressures in that regard.

John Mason: The same argument has been used for increasing members' staff and office costs quite dramatically, by a third. Surely most MSPs work full time, so giving the Parliament extra powers does not mean that MSPs will do more work—they will just work differently. Why do they need such a big increase in staff costs?

Liam McArthur: I would not like people to assume that the increase simply reflects the new powers that are coming to the Parliament. Some of it is to do with decisions that the Parliament has taken about being a living wage employer and ensuring that that is reflected in budgets that have not changed dramatically over a period.

The increase also reflects the feedback that we have been getting from members for some time about their attempts to pull together a staffing complement that enables them to respond to, for example, contact from constituents, which comes in a multitude of fashions, including increased contact through social media and email. We have been aware for some time that the workload pressure on MSPs has not necessarily been adequately reflected in the staffing provision. Some of this is about playing catch-up with demand that has probably been there for some time.

John Mason: Workloads in the national health service and in colleges are also increasing, but we do not increase NHS and college budgets by a third. Are we saying that there is one rule for MSPs and another for everyone else?

Liam McArthur: With respect, I think that the corporate body is conscious that we are responsible for ensuring that MSPs have the resources that they need if they are to do the job that they are elected to perform.

John Mason: But nobody in society has the resources that they need.

Liam McArthur: With respect, John, each MSP is an individual employer and has to take a decision as to whether they need to use all the resource that is available to them. There is a ceiling on the resource, not a floor, and—as is the case now—MSPs will not be required to spend up to their budget limit. If an MSP feels that they can do the job that they need to do with fewer staff, they are quite at liberty to employ fewer staff.

The corporate body is conscious that for some time MSPs have been telling us that the arrangements for staffing do not reflect the demand on them, whether in the constituency or the parliamentary context. What we have sought to do is ensure that allowances better reflect demand, and the Parliament agreed to that when it voted through the proposals last month.

Jean Urquhart (Highlands and Islands) (Ind): Continuing on the subject of staff costs, is there evidence of MSPs viring more money? Is there a certain allowance to vire money from office costs into salaries? Is that something that you have used as evidence to show that we do actually need more money for staff? If so, how much is that? What is the percentage?

Liam McArthur: I am not sure whether we have that information—I will perhaps ask Derek Croll to respond on the detail—but absolutely: the example that you give of people having to vire into staff costs in order to cover the staffing that they feel they need to carry out their job is part of the evidence for suggesting that something needs to be done regarding the overall staffing allowance.

If it were a matter of one-offs to cover particular bits of work that needed to be done in a given year, that would be one thing, but if that is happening consistently over a number of years and in a number of offices, that tends to suggest that there is a wider issue to be addressed.

Jean Urquhart: It might be useful to have that evidence to build a case.

Liam McArthur: I do not know whether Derek has figures to hand. We can certainly provide more detail if needs be.

Derek Croll: I do not have figures to hand, but I know that just over half of MSPs vired from their office cost provision to their staff cost provision over the past two years. The amounts vary from small amounts up to about £8,000 or £9,000. A lot of members have taken advantage of that viring to supplement the staff cost provision.

Jean Urquhart: I want to ask about the net revenue and capital budget and about the contingency in particular. We have spoken about that already, and it is explained with reference to one-off election-year costs. I think that I am right in saying that the same costs as applied five years ago are being carried forward for the coming year. Would the amounts concerned not have increased a bit, five years later?

Liam McArthur: Some of the costs arising from an election may have gone up and some might actually have reduced. We have taken a look at what we know and what we can sensibly predict at this stage. We think that the £3 million increase is sufficient to cover it.

We are aware that a number of members have already indicated that they are stepping down, which gives us a better visibility of the likely change that will happen next year. However, a lot will probably remain unpredictable until fairly close to election day and what members will need when they come in will change.

We have tried to do a fair bit of fundamental thinking about the sorts of support that we can put in for new members. There has been quite a bit of discussion with individual members over the past couple of years, trying to gauge what worked and what did not work in terms of the induction and the support that was available. I think that we are now in a better place. Some of that support will involve dealing with MSPs in groups as well as individually, which may allow us to do things a bit more efficiently than was perhaps the case back in 2011.

You are right that certain costs will have gone up since last time round, but I hope that by working a bit smarter and a bit more efficiently—and on the basis of the feedback that we have received—we may be able to do some things more cost effectively than we have done in the past.

Paul Grice: That is absolutely right. It is obviously a difficult number to calculate and it is a very sensitive thing to calculate. We think that we have made a prudent assumption. We have an emergency contingency, which would be drawn upon if, for example, we have underestimated the amount. We would have to manage our funds in-year in order to cope with that, as we do anyway. If we have overestimated the amount, the money would be returned to the consolidated fund. We think that it is a pretty sensible central estimate.

Jean Urquhart: Last year, you talked about renewing all the lights in the chamber as an energy-saving measure. Did that happen? Can you tell?

Liam McArthur: That is one of those things that we are conscious need to be done. The technical solution is not simple or straightforward and more work will be required before Paul Grice and his officials will be in a position to bring forward proposals for us as a corporate body to consider. It is probably another thing that, as we look at the 2016-17 spend, we have been able to push back a bit to allow us to accommodate the additional costs that we just cannot avoid next year. However, we are conscious that it needs to be done. The work on that is on-going, but we are not at the stage at which we are looking at firm proposals.

Jean Urquhart: I will ask a question about the shop, which it has become a tradition for me to do. The turnover improved a great deal when we moved the shop site. I notice that we expect to take less this year than last year. I think that that might be to do with last year's great tapestry of Scotland exhibition and the associated book sales, but I wonder whether that accounts for the difference in takings of £30,000 or thereabouts. Can you explain the difference?

Liam McArthur: I will ask Paul Grice to step in shortly, but first I want to put on record the corporate body's gratitude for the work that is done by the staff in the shop. As you say, it has been quite a turnaround. The shop was not helped by its previous location. The new layout and location work much better and allow the shop staff to do more things, and I think that that is reflected in the success of the shop in turning a profit over the past few years.

You are right that a lot of the footfall will be driven by other things that are happening in the Parliament. Obviously, people will not come to the Parliament just to come to the shop. Things such as the tapestry exhibition, the Warhol exhibition and the photography exhibition will all generate footfall and first-time and, potentially, return business. There is likely to be a bit of a fluctuation in that year on year, and we need to help staff to do what they need to do to smooth that out.

Paul Grice: I agree with all of that. For me, the most encouraging statistic from the shop is the spend per customer, which has gone up very significantly. As Liam McArthur said, to some extent footfall for the shop is just what it is. As you rightly say, the great tapestry exhibition was the runaway success both in terms of the volume of people and the merchandising—particularly the book—and we also have a Bellany exhibition coming to the Parliament in the new year. There has been a tremendously successful product line around women’s suffrage, the anniversary of which we marked. I think that we have got better at getting merchandise to match what is going on in the Parliament.

As I said, to some extent footfall is what it is and the shop makes the best of it. For me, a key measure that the shop can control and look to promote is spend per customer. The fact that that has gone up very significantly is extremely encouraging. What we generate from the shop is always going to be at the margin, but it is always well worth pursuing. I expect the trend that we have seen to continue in coming years.

Jean Urquhart: The thing that stands out is the fact that the highest turnover resulted in a very small profit. This year, turnover is expected to reduce by £30,000, yet we expect to make six times the profit that we made the year before. Is that a cause for concern? Have you identified something that was being done wrongly?

Paul Grice: I do not think so. If you dig down into the figures, you will find that we have reduced the running costs of the shop a lot. As with any commercial enterprise, turnover is critical, but the margins on the products that are sold are very important, too, as is the cost of running the shop. We have improved the margins and reduced the running costs.

The one caveat is that the shop is not a purely commercial venture; I regard it as part of the service to the public. We will sell products there that you would expect to find in a parliament but that you might not expect to find in a purely commercial venture. I think that the shop ought to wash its face and make a small contribution, which it does, but I am also mindful of the fact that it is part of the service that we offer people who visit the Parliament. It is important to strike that balance.

10:15

Liam McArthur: Paul Grice makes a pertinent point about the products that the shop will stock.

Jean Urquhart will be aware that there are producers of any number of different products in Scotland who would love to have the opportunity to be showcased in the shop. In my own neck of the woods, Sheila Fleet swears by the benefits of being stocked in the shop—not necessarily in terms of the volume that its sells, but of the kudos that its products being in the shop brings. At the same time, we have school groups in and out of the Parliament on a regular basis who are not going to spend huge sums of money but who want a memento of their time in the Parliament.

That kind of range in what we provide is always going to present a challenge, but, as Paul says, over the years we have got smarter about the things that work and about striking that balance.

The Convener: You stock more of what sells and less of what does not, basically. You are right that we might not make much margin on some things, but it is important that we have mementos available for people.

Mark McDonald (Aberdeen Donside) (SNP): I welcome the increase in the members’ staff budget, particularly in my area of Scotland where it is often very difficult to recruit or retain on the money that is available. If nothing else, it will allow for a more realistic wage structuring within offices.

I want to ask about the second element of what we voted on when we voted on that part of the budget. I will declare my interest at the outset: I am one of the members who are affected by the decision to remove the ability to rent from political parties.

I want to say, in case the *Daily Mail* is listening, that I am not opposed to that change, but there are costs associated with it. For example, as a rough guide when I looked at the market in my area, I could find at the very cheapest a 33 per cent increase in rent to obtain a space. Has there been any examination of what is being paid by members who currently rent office space via political parties and how that compares to the more general market price in the areas they represent, in order to get an idea of what uplifts might be required?

Liam McArthur: Those arrangements are few in number and probably have arisen for a variety of reasons. I do not think that in any of them there was any question that they did not operate appropriately or represent value for money; the decision was taken in response to their being something that could be misrepresented or misconstrued and therefore a potential risk to reputation.

There is certainly a recognition that those arrangements may have delivered office space at rates that are difficult, if not impossible, to secure through other means. That may push up office costs for some members. I would hope and expect those increases to be bearable within the cost structure of the allowances available.

If individual members have particular problems, the corporate body has always been sympathetic to looking at individual cases and providing what support we can. I suspect that the problem that you have identified is specific to the north-east, but there may be other areas where availability of suitable property is an issue. The offer remains to provide assistance where we can, but the rationale for taking the decision is, I think, justified.

Mark McDonald: Obviously, the other consideration is the capital costs of refurbishment and so on in relation to new offices. There are going to be costs for new members coming in but, on the proviso that those returning members who are affected by the SPCB decision come back and are then in the position of relocating their offices, they will also incur capital costs depending on the condition of the new offices. Has that been factored in to the contingencies that you have put in place in relation to post-election costs, or is that something that will have to be looked at as and when it arises?

Liam McArthur: That is a fair point. I should point out that the corporate body did not take the decision; the Parliament took the decision when it voted last month. However, the rationale for having the new scheme at the point of election is that it is a natural break point.

As regards the overall costs that we put in the contingency, the relocation element will be factored in with all the other evidence that we have about the likely changes that will arise post-May, whether it is individual members indicating that they are stepping down or anything else that makes it clear at this stage that additional cost pressures will arise. That evidence provides us with a better line of sight on the costs and therefore will be factored in with a degree more certainty than some of the other elements.

Mark McDonald: Finally, on the pay costs, I will not go into the debate around the MSP staff cost increase because you have given the reasoning behind that. However, if Parliament staff are looking at MSPs receiving a 2.7 per cent salary increase, how will that affect the negotiation that takes place with Parliament staff? Presumably the SPCB will have to bear that in mind when it comes to looking at what offer is made to Parliament staff.

Liam McArthur: I will ask Paul Grice to speak specifically to the negotiations, which—as I said in my opening remarks—are barely under way at this stage.

Some of the portrayal of the increase in MSP pay through the linkage with the annual survey of hours and earnings—ASHE—has slightly glossed over the fact that the figure in 2014 was 0.6 per cent. If we look at it over the period of five years, the effect is a 1.1 per cent increase over that period. It does seem to fluctuate in that, in 2012, it was 0.1 per cent; in 2013, it was 2.6 per cent; in 2014, as I said, it was 0.6 per cent; and it will be 2.7 per cent next year. There do seem to be fluctuations, but the effect over a period is for the rise to pretty much reflect what has happened across the piece in the public sector.

Therefore, I think that it was right to make the break with the linkage with Westminster. As I said earlier in response to the convener, the way in which pay, allowances and pensions have operated in the Scottish Parliament have been diverging with Westminster anyway, and the break was a sensible recognition of that fact. ASHE is a respected measure so pegging MSP pay to ASHE has provided an outcome over the period that is pretty much consistent with public sector pay.

I will ask Paul to deal with the specific issue of the upcoming negotiations with SPCB staff.

Paul Grice: You will understand that I do not want to say too much, given that the negotiations have not even begun yet, but I am very clear that the comparator is with other public sector pay in Scotland and not with members' pay. We look at the whole terms and conditions package, and parliamentary staff are in a completely different category to members.

I would resist very strongly any notion that we track MSP pay. For me, the comparator is other public sector employees in Scotland, and that is very much my starting point for those negotiations. It is a starting point, and we always negotiate; hitherto, we have always had a successful negotiation with the trade unions, and I would expect that to happen again.

For me, the comparator is other public sector employees in Scotland. That is historically what we have done, and I would not expect it to be any different in the next pay round.

The Convener: Thank you. That completes the questions from the committee, but I have a few further points.

When the Scottish Parliament was established, the idea was that MPs and MSPs would have the same salary and then the Government decided that MSPs would have 87.5 per cent. Does the new decoupling arrangement not mean that the figure is now 81 per cent of an MP's salary? There is a relative reduction in terms of MSP to MP.

Paul Grice: I will trust your maths, convener. That has been the direction of travel.

The Convener: I have a couple of points about staff budgets. Is it not the case that one of the reasons why the budget has gone up is because MSPs are no longer competitive and able to attract the best staff? MPs from the same political party get twice as much as MSPs so they have poached staff from a lot of MSPs. I have to say that that has not happened in my case but I know of colleagues that it has happened to. The staff can do more or less the same job with significantly higher pay just by switching to work for the MP's office, which is often in the same building or a few miles up the road. Is that not one of the issues?

Liam McArthur: I gently suggest that there are downsides to landslides, convener.

The Convener: Not if you are one of the staff.

Liam McArthur: We need to be aware of and informed by the systems that are in place in Westminster, the National Assembly for Wales and, indeed, Northern Ireland, because they are relevant. Ultimately, however, we need to take decisions on the basis of what we feel MSPs and their staff require. I am not sure that we would have found it to be particularly comfortable to peg ourselves to a Westminster system that has come in for criticism. The Independent Parliamentary Standards Authority is entirely independent of MPs, but there has been quite a bit of criticism about some of the decisions that it has taken over which MPs have no control.

As I say, we need to be aware of what is happening in other Parliaments but ultimately we need to take responsibility for what we think is a fair budget and set of allowances for the work that we carry out. We will continue to discuss with members how the new system operates and whether it will require further tweaking in future. Since the Parliament's establishment, corporate bodies have shown a willingness to learn what works, what does not work and what needs to be changed, and we are happy to continue to do that.

The Convener: I think that the entire Parliament supported the decoupling. There is nothing worse than people voting on their own salaries. The MSP to MP proportion seems to be entirely fair.

We have not really touched on the flexibility that is needed in the system, and that is the difficulty that the SPCB has. Let us look at the members of the committee: we have three list members and three constituency members, and both Mark McDonald and I have been a list and a constituency member. You are a constituency member, Liam. In my experience, the difference in the workload is colossal. Although we have the same amount of parliamentary work, constituency work for constituency members is infinitely higher. Staff budgets are the same for list members and constituency members.

There are also issues around geography. *The Herald* printed the list of the five most expensive MSPs and you, Liam, will always be on that list because you have to fly here from Orkney every week. As a constituency member, you have to run an office with staff up there and one down here. Lothian MSPs can be in this building, have no constituency office, use the phones at zero cost to their expenses, and have no heating or lighting costs and very few travel costs. They do not have to do what our Aberdonian colleagues do and rent properties that are expensive relative to those in the east end of Glasgow where, I imagine, John Mason's costs would not be anything like as high.

How does the SPCB manage to deal with that mélange and try to ensure a fair balance? You want to enable all members to do their jobs, hire an office and have staff and, as you do, travel to the Parliament every week when necessary, but at the same time not to have inflated budgets—let us say—for members who do not have the same kinds of pressure.

10:30

Liam McArthur: It is an entirely fair point. We are conscious that we need to ensure that there is as much flexibility as we can provide. That may be through an ability to vire or by recognising that budgets for some members will be under more pressure than for others.

In my own instance, there are few league tables in which I am not fairly close to the top when it comes to allowances. That is a reflection of geography. It is not just the flying back and forth but the travel within the constituency as well, which can be more costly and problematic.

The Convener: Indeed.

Liam McArthur: I have had to look at the way in which I organise my flights in order to keep those costs as low as I can. However, I am not going to be thanked by my constituents for making myself less accessible to them or less effective in representing them here. All members are in that position.

As I said in my answer to John Mason earlier, the SPCB sets allowances at a level that it thinks is a reasonable maximum, but most members will not spend out that allowance. Some will fall very well short of it but have a much higher spend in other areas. Travel allowances are not capped but paid on the basis of receipts and a demonstration that the travel falls within parliamentary purposes. I think that that is right.

The Convener: Hold on a second—you said that mileage is capped after 10,000 miles.

Liam McArthur: Yes, mileage is capped.

MSPs work in different ways. I represent a constituency that is far away from Edinburgh and quite difficult to travel around. However, Jean Urquhart, representing the Highlands and Islands, is probably doing an awful lot more travelling than I am.

There are fewer constituents in my constituency than there are elsewhere. For each MSP, there are things that work in their favour and things that work against. You will know better than most that the way in which MSPs work is not simply a reflection of the constituency and region that they represent—it is a reflection of the fact that the expectations of constituents about how they engage with their MSPs are changing. That probably brings additional pressures and costs, but sometimes it allows an MSP to work more efficiently and smarter as well.

As a corporate body, we think that at the moment we have in place a system that supports the members and the work of the Parliament. However, that will change over time and we need to be ready and constantly willing to look at things that are not felt to be fit for purpose any longer. The corporate body that takes over after the next election will also need to be alive to that fact.

The Convener: Thank you. As no one has any further points to raise, we will wind up the session. I thank colleagues for their questions, and our witnesses for their answers.

10:34

Meeting suspended.

10:41

On resuming—

Scottish Rate of Income Tax

The Convener: Our next item of business is to continue our scrutiny of the Scottish rate of income tax. In this session, we will focus on the views of representatives of the business community.

I welcome to the committee Rain Newton-Smith of the Confederation of British Industry; David Watt of the Institute of Directors Scotland; David Lonsdale of the Scottish Retail Consortium; and Susan Love of the Federation of Small Businesses. I thank you all very much for coming along—it is appreciated. When we look at something as important as the Scottish rate of income tax, the views of the business community are important.

We have all your submissions, so I will not ask for brief statements. We will go straight to questions. In the Finance Committee, I start with some opening questions and the session is then opened out to colleagues around the table. Richard Baker has already indicated that he wants to come in, so he will be first to ask questions after me.

Who shall we start with? Eeny, meeny, miny, moe. What about starting with Susan Love?

Andy Willox's letter of 31 August 2015 said that most small businesses were unaware of the change. Is that still the case? He also said of the FSB in the last paragraph of that letter:

> "we have not expressed a view on the best tax rate for small businesses but are likely to consult with our members on the matter nearer the budget."

Has that consultation taken place? If so, what are FSB members' views on the SRIT?

Susan Love (Federation of Small Businesses): Since we made that submission at the end of August, we have done a little bit of extra work with our members to see where they are at on both those questions.

It is clear from most of the submissions that awareness about the onset of the Scottish rate of income tax among businesses and taxpayers is pretty low. We polled our members at the end of October, which was before any of the letters went out or any of the publicity started. That indicated that fewer than a third of our members were aware of the Scottish rate of income tax. Fifty-nine per cent were unaware of it and 28 per cent were aware of it. It is therefore clear that the majority were not aware of the change that is coming, but that poll was taken before the letters started to go out to taxpayers. It should be borne in mind that a lot our members will be self-assessed, so they will get one of those letters, and that that was before any of the publicity. I expect that the situation will change nearer the time, but we always expected that there would be a relatively high level of lack of awareness among small businesses.

We have not taken a formal view on what the rate of the tax should be—we would not generally do that—but we have just done a temperature check of our members to see what they think at the moment about the change. We may well do some additional modelling once the tax is in to assess what the impact would be on small businesses, but we have not done that yet.

10:45

We did a quick and dirty poll of our members in the early summer in which we presented them with options around the Scottish Parliament having control of income tax and asked what their preference would be. The options were: maintaining the same tax rate as that in the rest of the United Kingdom, increasing tax to increase investment, or decreasing tax to encourage entrepreneurship. Perhaps surprisingly, the vast majority of respondents indicated that they would like the rate to stay the same—two thirds said that they wanted to keep the tax rate the same, at least for this year, and as many said that they would like the tax rate to be increased as said that they would like it to be decreased.

You will find that there is not one homogeneous view from small businesses. Small business owners take a range of views on what should happen with tax. However, the clear preference at the moment is to keep the rate the same.

The Convener: That is great—thank you for that clarity.

Rain Newton-Smith's submission is also clear on two points. On the first issue that I asked about, you said:

> "employers would have liked to have seen a greater level of communication at an earlier stage to raise awareness",

which echoes what Susan Love said. You also said:

> "our members believe that it should be maintained at 10%",

so you are in agreement with the FSB and the Scottish Trades Union Congress on that matter. Will you talk us through the CBI's thinking on that issue?

Rain Newton-Smith (Confederation of British Industry): One of the main reasons why we recommended maintaining the current rate is that the Scotland Bill is still going through Parliament. As Susan Love said, it makes sense to maintain the current rate, particularly if more changes and more devolution of fiscal powers are potentially coming down the track. To our mind, the most important thing is that the Scottish Government sets out a business tax road map, so that businesses are clear about how the new powers will be used and there is a clear direction. Our members tell us that, to create jobs and invest, they need certainty over the long term. Therefore, it seems that now is not the right moment to change the overall rate.

To echo a point that Susan Love made, we do not normally express a view on what the overall personal income tax rate should be. We are most interested in having stability, certainty and a long-term plan.

The Convener: Yes. You add in your submission:

> "Frequent changes to the rate add complexity and uncertainty for businesses".

I do not think that the Scottish Government or anyone else has proposed frequent changes to the rate, although obviously you would not be in favour of that.

My next question is for David Watt, rather than David Lonsdale. We get a lot of Davids at this committee, you know. We had a panel that was all Davids last week. The submission from the Institute of Directors states:

> "there ought to be a greater incentive for migration to Scotland if the SRIT were to be set below 10%."

Are you saying that you would like the rate to be set below 10 per cent initially, or would you like Scotland to move towards that?

David Watt (Institute of Directors Scotland): I do not think that we have taken a view on what level it should be set at. We were just pointing out some of the potential consequences of tax changes. One reason why people set up businesses in a certain place obviously relates to the business taxes map, as Rain Newton-Smith said, as well as the individual taxes map. If Scotland became a very low-tax economy, people would be tempted to move to it from all over the world, including possibly other parts of the UK. It is also true that the opposite could happen if the tax levels were set higher. We were just pointing out the implications, rather than making a comment on the level.

The Convener: Okay, but if we reduce the Scottish rate of income tax by a penny, that would cost several hundred million pounds—it would cost the Scottish economy somewhere between £280 million and £400 million. Basically, the question is what the elasticity is. Does the Institute of Directors have any information to say that, if there is a 1 per cent reduction, we would have X number of additional people coming to Scotland and therefore the impact on tax would either be neutral or slightly positive?

The research—or rather, I should say, the anecdotal evidence that we have had—indicates that a difference of 1 or 2 per cent up or down does not really make much odds: nobody is going to move house because of a 1 per cent tax difference. However, they might do so if the difference was 10 or 5 per cent, particularly in the case of higher-rate taxpayers. Most people do not have the option to move. A teacher, bricklayer or bus driver would not move depending on whether their tax went up or down; I imagine that they would not have that option, unless the difference was substantial in either direction. What kind of change do you believe would make a significant difference either way?

David Watt: Your analysis is accurate. Quite a number of people cannot move their jobs, especially at the lower end. Their jobs are not moveable. Indeed, as we have pointed out in relation to the Forth road bridge, the jobs are sometimes not gettable-to. For many people, moving jobs is not realistic.

We do not have any specific evidence on a certain figure at which we would really start to see movement. There has been evidence from previous changes by the UK Government between the 50p and 45p rates that reducing the rate actually increases income. Indeed, there is more of a temptation at the higher end: more mobile people can move to other countries or tax jurisdictions, as they do in certain cases. I do not know the actual figure for that.

People seemed to indicate that, once tax reached 50 per cent of their income, that was a significant level, which they were not really prepared to accept, although for some reason they would accept 45 per cent. It is difficult to know exactly why that is—there seems to be almost a mental barrier.

Tax levels in this country have not changed substantially. If they were to change substantially, people would take a different view of both Scotland and the UK. Income tax is quite a sensitive tax and it is a very personal thing. There is not necessarily a massive amount of logic to the way in which people behave. I have just given the example of changing between 50 and 45 per cent.

The Convener: You are right that a psychological issue might be involved.

The Scottish Retail Consortium said:

"we would caution against any moves which would lead to those working in Scotland having to pay higher taxes than elsewhere in the UK ... If Parliament was determined to vary tax rates then we would prefer it to fall rather than rise."

Do you share the broad consensus on the panel that rates should remain the same, at least for the initial year? Does your organisation wish taxes then to fall gradually? Could you give us a wee bit more information on the Scottish Retail Consortium's view on that?

David Lonsdale (Scottish Retail Consortium): Thank you for the opportunity to be with you here today.

As you have rightly alluded, we do not make a firm recommendation in our paper. Contrary to the committee adviser's summation of our submission, we have not been an advocate of lower taxes, other than in due course. Once the lockstep ends, it is worth considering the impact of the tax burden on lower earners.

We are very conscious of other factors that the Cabinet Secretary for Finance, Constitution and Economy will have to take into account when he sets the new Scottish rate of income tax in due course. For example, there is a lot of focus on replacing or reforming council tax. We hear quite a lot about interest rates rising in due course, possibly towards the summer of next year. At the same time, all of us, as individuals, are expected to pay more in pension contributions through auto-enrolment and so on. There is a graduated step change there. Various other factors need to be taken into account before a decision is made to flex up or down the new Scottish rate of income tax.

The Convener: You are obviously concerned about whether there is a reduction or an increase in spend in the Scottish economy. Obviously, that depends. If, for example, taxes are raised and money is redistributed to poorer people, would they be more likely to spend it on retail goods? Going the other way, if taxes fall for higher earners you might suggest that they are more likely to spend money on foreign holidays, cars and so on. Where do you see the retail industry gaining or losing in the context of this tax issue?

I will ask you a wee bit more about other tax issues, but for now we are talking specifically about the Scottish rate of income tax.

David Lonsdale: There are two elements, or two sides of the balance sheet. There is post-tax income, but there is also the cost-of-living increase. It is difficult to model or forecast what will happen if we either increase or reduce the tax rate, because of the variety of other things that are happening to which I have alluded, which will affect consumer spending in the future.

For us, it is very simple: we want a sustainable, growing economy.

The Convener: Don't we all? How we achieve that is always the $64,000 question.

David Lonsdale: It is. As Rain Newton-Smith suggested, we do not want great swings, booms or busts, or whatever the language is. A sustainable, growing economy is the optimum scenario for the retail industry, with, we hope, a growing population and growing incomes.

A variety of factors need to be taken into account by Mr Swinney. What we have said is, "Don't add to the burden by taking money out of the pot that people have." At the same time, we have not made specific recommendations about lowering the tax burden.

The Convener: The SRC has said that "ideally" it wants to see

"a clear vision and sense of the medium to long term direction articulated in the upcoming Scottish Budget."

What do you really want to see in those terms? How do you see that clear vision, and what is your clear vision of what Mr Swinney should be doing a week from today when he announces his budget?

David Lonsdale: It is pretty much aligned with what Rain Newton-Smith suggested with regard to the complexities for businesses as employers.

We have not suggested doing what the UK Government has implemented—I think that it has changed the law to say that there will be no income tax or VAT rises going forward—but we would like some sense of the Scottish Government's approach and sense of direction regarding its objective with its new tax power.

I think that I am right in saying that Mr Swinney articulated something similar when he set the new land and buildings transaction tax and the landfill tax—was that last year?—when they were first introduced.

The Convener: It was 1 April.

David Lonsdale: In that sense, the finance minister has form in setting out his sense of direction. That is what we are looking at..

The Convener: In effect, the panel is looking for Mr Swinney to say, "This is philosophically what the Scottish Government believes, this is the direction in which we should move and this is what we are doing to get to that goal." Is that an accurate summation?

David Lonsdale: It is, if he also takes into account the various other factors that I mentioned earlier.

The Convener: Your submission says:

"The SRC believes policy makers can enhance Scotland's prospects further by using the new devolved tax and fiscal powers including SRIT to positively support the economy and consumer spending."

We will move on a wee bit.

The Institute of Directors says that it is "understandably concerned" that the introduction of the SRIT

"does not impose additional costs on business unless these costs are purely incidental and immaterial."

That is at the beginning of your submission. What costs do you worry are going to be imposed? Are you talking about the administration of the SRIT specifically? Later in your submission, you query the figures that were given by Her Majesty's Revenue and Customs on what its costs would be.

David Watt: It is not really about that; it is about the potential for additional costs to employers. Initially, it will largely be about the mechanical entry of a different tax code.

Were there to be a different rate of tax in the future, collection could become more complicated. The costs for businesses would be a concern. David Lonsdale has just enumerated a number of the costs that we all face at the moment and, to be blunt, we do not want any other, unnecessary costs to be imposed. Collection costs are certainly an issue. For some smaller companies, there might be so few people, if any, that it would not be an issue, but for some larger companies it could be quite complicated.

I realise that you have not had feedback on it yet, but Susan Love made an interesting point about self-assessment. How that will pan out is also significant for our members. We have all been receiving our letters that tell us that we will have an S in front of our code in the future. That is fairly straightforward for someone who is employed singly for one organisation, but many people are not in that position and for them it could be quite complicated.

In addition, some people will no doubt appeal the decision on whether they are deemed to be a Scottish rate taxpayer. They may not do so in large numbers just now if the level is seen as the same, but if the rate is changed, a number of people—such as those who travel up and down the country weekly—may well rush to say, "No—I actually live in London, not in Edinburgh", so there might be more of a challenge in the longer term.

In the short term, that will probably not be a big issue, but it is something to watch out for. If the levels were to change, the situation could become quite complex for HMRC and for employers.

11:00

The Convener: I have a question for Rain Newton-Smith. In section 2 of the CBI's letter of 30 July, headed "CBI Response To Scottish Rate of Income Tax—Technical Guidance on Scottish Taxpayer Status", you asked a number of questions. What response have you had? Is the

CBI satisfied with that, or are there outstanding issues that concern you?

Rain Newton-Smith: We still see that as an outstanding issue. One issue is that there has not been enough guidance on complex cases; that relates to David Watt's points on whether an individual counts as a Scottish resident for tax purposes. In most cases that is straightforward, but there are more unusual cases in which people work in different places and are resident in multiple jurisdictions, or are getting income from different sources. That makes things more complicated, and at this stage there has not been sufficient guidance.

Another issue relates to overall communication. More could be done to make it clearer that individuals are responsible for determining their own residency and that they need to report that to HMRC. Revenue Scotland could do more to direct people towards HMRC—for example, through links on its website.

It may make sense for HMRC to contact smaller businesses individually to let them know that the changes are coming. Businesses have a role to play in communicating with their employees about the changes.

The Convener: Is HMRC in discussion with the CBI regarding a timescale for resolving the issues prior to 1 April next year?

Rain Newton-Smith: Not that I am aware of directly. I can check with my team, which has had such discussions more regularly, and get back to you.

The Convener: Before I open up the session to colleagues round the table, I have a question for Susan Love. In your submission, you state:

> "In January 2015 the FSB hosted a roundtable discussion for the main Scottish business organisations and HMRC to discuss communications with the business community."

How have things progressed since that meeting happened almost a year ago?

Susan Love: We have had updates from HMRC, and we have been invited to participate in conference calls. I was on a conference call with HMRC and employers last Monday. The points that we have raised with HMRC over the past couple of years have all broadly been taken on board. We have started communicating to raise awareness among our members about the change and what they need to do.

We made a particular point to HMRC about the need for the right information to be available to employers before the letters for taxpayers started arriving. Information went out in October in the employer bulletin from HMRC, and there is information available on direct.gov for employers to look at.

Arguably, HMRC could have done more to raise awareness with employers in advance. However, on the flip side, employers should not, other than responding to questions from employees, have to do or change a great deal, and we do not want to alarm them by suggesting that they will have to change or do something imminently when that is not the case.

At present, we are relatively satisfied with what has happened, but additional questions may start to arise from employees as a result of the communication that is going out. At that point we may hear more from small businesses that they do not feel that the information that is available at present is adequate, and additional work may be required.

The Convener: I will open up the session to colleagues.

Richard Baker (North East Scotland) (Lab): There are a few questions that still remain to be asked, so I will take the opportunity to come in. I want to investigate further the points that Susan Love discussed with the convener.

You said that most of your membership who responded to your consultation do not at this point want the SRIT to vary from the UK rate. Did you get a sense from the responses of whether that is because they do not want the potential impact on business, or because they feel that the overall income tax burden is broadly correct at this point?

Susan Love: The way that we asked the question was in relation to maintaining a single tax rate across the UK. The premise on which we asked was about keeping it the same and that was the option that our members went for. It is difficult to interpret the exact motivations behind answers to a simple survey, but my instinct tells me that at the moment a lot of small businesses are quite cautious about change and their reaction is to stay steady as she goes.

Richard Baker: Is your instinct that that attitude might change once the SRIT becomes established, or do you think that there will be continuing concern about variation because of the impact on business? Is that difficult to assess?

Susan Love: It is very difficult at the moment to tell what might happen. As I mentioned, we may, once the SRIT is in place, do some modelling looking specifically at what the impact might be on small businesses.

Richard Baker: Thank you. David Lonsdale raised the issue of forecasting future SRIT levels for businesses. You talked with the convener about the philosophical direction, and about how the Government might indicate its approach.

Would it be helpful to hear from Government about more than the philosophical approach—for example, for it to say what it anticipates the SRIT levels will be over the term of a spending review, or a session of Parliament? Would that be desirable and achievable?

David Lonsdale: That would be helpful. As I understand it, the spending review at UK level is over a three-year period.

The Convener: It is over four years.

David Lonsdale: The spending review period is four years—as I have just been corrected by the convener. I am not sure whether that timescale would give the finance secretary latitude to do what you suggest. I hope that it would.

I will answer a question that Susan Love was asked, and say that the responses of our members show a pretty simple view, which is that the focus of substantial tax reform should be other taxes. I will not bore the committee about non-domestic rates, but business rates are obviously up there as something that our members think need substantial reform. We are conscious that many of the parties round the table, and the Government, have commitments relating to council tax and air passenger duty. If you were to put a list of the top tax issues in front of our members and ask on which there should be serious action, change and reform, the SRIT would not be at the top of the list.

Richard Baker: That notwithstanding, do you think that business organisations such as the Scottish Retail Consortium will have more to say on SRIT in the future, or will there always be a reluctance to comment on it compared with other taxes that are under Scottish Government control?

David Lonsdale: I am sure that we will have more to say in due course. Once the tax rate has been announced and it captures the public's attention a bit more, I suspect that we will be in receipt of a lot more views from members, as will other witnesses and, indeed, MSPs from your constituents. The issue has yet to capture the public's attention, because we do not have clarity over the tax rate and something for people to get their teeth into.

Richard Baker: That is an encouraging response. One of the concerns that I have had as we take evidence is that we will have new tax powers, but we have very little evidence or encouragement from people who are involved in the economy and stakeholder groups that the SRIT should be changed or varied—there is a real fear about doing that. Is that something that witnesses think will change in the future, once the SRIT has been introduced? Clearly, David Lonsdale does. I ask the question of David Watt.

David Watt: I will echo points that have been made already. David Lonsdale earlier made the point very well about the bundle of taxes, the cost increases and pension contributions that individuals face in their lives. That point is also true for businesses.

Income tax is an individual tax, but it has an impact on where bright and entrepreneurial people and leaders decide to live or set up in business. If there were to be a substantial change in the SRIT that would be a disincentive to such people setting up in Scotland, we would be against it. Equally, you could argue, as we did in our submission, that we need to lower the SRIT and attract people to Scotland.

We are very active in the post-study work-visa space and the immigration space, and we would be very positive about people coming into Scotland. It would be brilliant if there was a way of doing that through tax, but at this point in time it is probably unrealistic. The convener made a point about how expensive it is, relatively speaking, to lower the rate. Overall, it is important that the Finance Committee, Parliament and the finance secretary understand that business costs make a massive difference to where businesses locate, and they have an effect on the economy. If there are higher costs, we will be less inclined to do business in Scotland—that is the bottom line. To be honest, I do not know whether income tax is at the top of that list.

Richard Baker: You are saying, however, that it is a factor and has an impact on business.

David Watt: It is absolutely a factor, as part of an overall package.

Richard Baker: That helpfully leads me on to my final question, which is to Rain Newton-Smith. If I heard her rightly in her response to the convener, she said that the CBI does not normally comment on personal taxation or income tax and that it focuses on business taxation more generally. That is understandable, but given that the Scottish rate of income tax will be the major power over taxation that the Scottish Government will have and that it will impact on business and the economy—as we have heard in evidence from other panel members and in the submissions—might the CBI comment in the future on issues regarding that tax and its broad effect on the Scottish economy?

Rain Newton-Smith: First and foremost, our businesses are more concerned about the overall rate of corporation tax and, in particular, business rates. That echoes what other panel members have said. The overall burden of business rates in the rest of the UK and in Scotland has increased significantly since 2007, which is causing real issues for businesses—especially high street retailers. That comes across in a lot of our consultation with our members.

The overall direction of personal tax becomes an issue only when it starts to affect international competitiveness or the ability to attract people with the right set of skills into businesses. We know that their having the right skill set is a big issue for businesses in Scotland and in the rest of the UK. A survey of some of our members suggested that more than 60 per cent of businesses in Scotland cannot find the right people with the high level of skills that are required for the business to expand.

It depends—if the tax rate here becomes very different from that in the rest of the UK, or it becomes very uncompetitive internationally, we might get to a tipping point where the issue moves up and on to the radar as a concern for businesses. However, at present, businesses are much more concerned about some of the other areas of taxation and they see personal income tax as an issue for the Government to decide.

Richard Baker: That is helpful. Thank you very much.

John Mason: I will build on some of the points that have already been made.

Paragraph 4 of Mr Lonsdale's written submission states that

"The retail industry takes a great interest in personal taxation issues for several reasons",

and lists them in three bullet points. Broadly speaking, they are customers' discretionary spending and disposable incomes, the impact on retail industry employees and the potential knock-on implications for other taxes that affect households and businesses. It is interesting that you did not mention what the money might be spent on—for example, a better-educated workforce. Is that a factor, or do you feel that your workforce is overeducated, which means that we could afford to cut back a bit on education?

David Lonsdale: That sounds like an invitation to go somewhere that I probably do not want to go, to be honest.

Later in our submission, we mention what would happen if the Government was minded to vary the tax upwards, and we clearly indicate some areas in which the money could and ought to be spent to enhance the productive capacity of the economy—for example, we talk about skills development, transport and digital infrastructure.

John Mason: Okay. If we were going to raise income tax by, say, 2p, would it make a difference to your view of the SRIT if we said that it would be ring fenced for education, for example, so that you would therefore, in a few years, get a better-educated workforce?

David Lonsdale: That would be to hypothecate tax rises for a particular purpose.

John Mason: Yes.

11:15

David Lonsdale: That might make an increase more sellable. We have not consulted members about that as an option; we have not asked for feedback on that. We are very much in favour of having a high-quality supply of staff. That is one of the changes that is affecting the industry at the moment.

There have been a number of announcements, including this year, to do with the national living wage and the apprenticeship levy. The industry is going through a degree of turmoil and change at the moment. Most retailers are trying to get their heads round the changes and most indicate to me that they will end up with fewer—but hopefully better-qualified and better-paid—staff. We are always in the market for more educated better-quality people so that we can deal with changes that have come about through the digital economy.

Retail is changing profoundly because of how people shop; black Friday was emblematic of that. Last year, we saw queues of people outside shops looking to get a good deal. This year, there were not queues, because more people were buying online. The industry is changing greatly, and we want people with the appropriate skills involved.

John Mason: Rain Newton-Smith also mentioned skills. Would it be better if we could raise tax and hypothecate it for education, say? Would that be more favourable?

Rain Newton-Smith: We would like there to be a vision on an overall road map for business taxation and, along with that, a vision for how revenues will be spent. In our business manifesto, we set out some areas where we see how spending helps to drive the productivity of the economy in Scotland generally. The ones that we highlighted included specific infrastructure projects—for example, the city rail link to Glasgow airport. It would be helpful to set out a long-term vision in that regard. We also mentioned digital connectivity.

On skills, curriculum for excellence presents more of an opportunity to focus on vocational training. That comes up a lot among our members. We need to ensure that people have the right vocational skills.

It is very early days with the apprenticeship levy, and it is not quite clear how, in practice, that will work to ensure that we have the right quality of apprenticeships. That is clearly one area in which there is a real need to build the right skills that we need to create jobs over the long term.

John Mason: Am I right in thinking that businesses are happier, and might be willing to pay a bit more money, if they know where the money is going? I am thinking of the business improvement district—BID—scheme, which I think has been accepted in some areas, where people clearly see that a bit of extra money will be spent on infrastructure in their area. Is that a model with which business is happier?

Rain Newton-Smith: I suppose that showing that the money will be well spent on infrastructure projects can help to garner some public support for them. However, I cannot really speak about individual schemes.

John Mason: Do either of the other two witnesses wish to comment? Would your members be happier about hypothecating or ring fencing tax for infrastructure?

David Watt: To be honest, we would be a bit cynical about that. It is not a good prospect at UK Government level, although perhaps in Scotland we could consider ways of doing it. Hypothecation has only generally worked while the Government that implemented it is in power. If a finance minister changes or there is a regime change or change in the governing party, such policies tend to disappear. I have that concern even with the apprenticeship levy that the UK Government is putting in. We might ask how that is going to pan out.

It is not a simple question. If you want to promote business, it might well be best to hypothecate money for improving infrastructure, rather than for increasing skills, because there is already a pretty strong agenda on that. We could have an interesting debate about how to spend the extra money. It all tends to go into a big pot and to get spent, to put it bluntly, so I am not sure that the idea would be sustained.

John Mason: Fair enough.

Susan Love: There is probably a difference between businesses understanding the importance of investment and spending, which might necessitate a tax rise, and its welcoming and advocating for that tax rise. We asked our members about it, and they recognised the benefit that a tax increase could bring in terms of additional spending, but I would probably not get the same result if I asked them tomorrow whether they would prefer an increase. I agree with David Watt: overall, hypothecation is not how things tend to work in practice for a large pot of tax such as income tax.

More generally, it is not so much the broad area of spending that would matter to small businesses; it is how the money is spent. For a small business, the proposition to spend more on a business improvement district, for instance, is much more real and immediate; the owner can sense the impact on their business. On a broad area like skills, although all businesses would recognise the wider benefit to the economy of a better-skilled and educated workforce, the extent to which that money supports small businesses and their skills needs may vary dramatically. How the money is spent, what type of schemes it is spent on and how they serve the needs of small-business employers are big questions when it comes to the effectiveness of hypothecation.

John Mason: That is helpful. Thank you.

The SRC's submission mentions—David Lonsdale also mentioned it in a previous answer—that business rates and other forms of taxation are a challenge for you and some of your members. The other suggestion that we have been given by previous witnesses is to leave the expenditure side the same but to switch round how we raise the money with taxes. For instance, one option would be to cut business rates and raise income tax. Is that something that your members would be happy with?

David Lonsdale: We said in our submission—I am conscious of this, and I think I said this earlier—that we are alive to a number of ideas that are kicking around at the moment that will affect consumers in the near term.

As I understand it, we are on the cusp of hearing the recommendations from the Commission on Local Tax Reform. As I understand it, most of the political parties are represented on that commission, so it is a reasonable assumption that what comes out of the commission and sees the light of day will probably be either a replacement for the council tax or a reformed council tax. I am so far none the wiser as to the total tax take that will result from that. I think that, at the moment, council tax generates £1.9 billion or thereabouts. Will the new reformed council tax or replacement for the council tax take less money out of household expenditure? Will it take more?

One of the arguments that has been advanced is that the commission may give councils other powers—over bed taxes, tourism levies or whatever. There are a number of taxes and ideas out there—for example, a deposit and return scheme, in which the idea is to charge consumers more for drinks cans and containers and so on. Some people have advocated a sugar tax. A number of ideas for new and replacement taxes are bubbling up.

I think that Professor David Bell suggested that we should be slightly cautious about moving income tax at the moment, given some of the other factors.

John Mason: I think that it is in the IDS submission, Mr Watt, that Professor Bell is quoted. He said:

> "there is a strong case for moving cautiously when considering changes to the higher rates of income tax in Scotland".

What do either of you think "cautiously" means? Would 2 per cent, up or down, be cautious?

David Watt: I have spoken with David Bell about this and have read his report. Nobody even knows, to be honest. I have had at least three different estimates of how many people pay the 45p rate of tax in Scotland. David Glen from PricewaterhouseCoopers will tell you that there are 12,000 people, HMRC says that there are 15,000 to 16,000 and I have heard politicians saying that there are 19,000. The situation is not absolutely clear. Even if such individuals were taxed a good deal more, what would be the actual revenue increase, if any? As I mentioned earlier, taking the UK example, we would actually raise less revenue. In addition, as we mentioned earlier, those people are more mobile.

The implications of tax rises are quite complicated. That is the point that David Bell has also been making, particularly regarding that group. As we quoted, and as he illustrated, that group of higher-rate taxpayers contributes a significant amount of money to the Scottish income tax take. We need to be very cautious about the potential to frighten them away.

John Mason: Does being cautious mean that we do nothing, or that we do just a little and be careful about it?

David Watt: I think that being cautious means understanding the implications. Sadly, in a whole variety of ways, Government quite often introduces legislation that has unintended consequences. That is why David Bell is saying that we should move cautiously. He is not saying that you should not do it; what he is saying is that you—the Parliament—have the power to decide, but you need to be aware of the implications.

I have talked to an accountant from a worldwide tax manager who has advised both in this building and at Westminster, and in his view and mine, tax levels get to a certain point where, as I said earlier, you see the law of diminishing returns. However, politicians sometimes ignore that. We have two parties in this Parliament that believe in a 50p tax rate, in spite of the fact that all the evidence, not just from the UK, shows that it will produce less tax. The view that we need a 50p tax rate is simply not borne out—it will not bring in more money.

You are right that it could be argued that 1p or 2p might not make a massive difference, but if it went beyond that, it might make more of a difference. Whatever the increase is, nobody at this point in time definitively knows the potential impact.

John Mason: I suppose that there are two opposite dangers: that we rush into things without thinking, and that we never move for fear of unintended consequences.

David Watt: Absolutely. I take the point.

John Mason: On that point, Ms Newton-Smith, the CBI's submission states:

> "we would advise allowing more time to focus on the implementation of SRIT and the additional income tax powers that are likely to be devolved".

Are you saying that we should not move it at all? I am not sure what "implementation" means if it is something other than raising or lowering the tax.

Rain Newton-Smith: There are a couple of things to say about that. Our view is that, given where we are now, it would make sense to maintain the SRIT at its current rate, particularly as it is likely that next year or the year after, there will be more discretion over the full range of rates as well as the bands. Adding another element of change at this stage does not, in the view of our members, make sense.

My other point relates to the period up to implementation. I know from talking to some of my members over the past couple of days that they have only just received their letters about being Scottish residents and the new S tax code. We know that some smaller businesses do not know enough to know that this might be implemented in the forthcoming budget; indeed, HMRC has said that one in 85 residents was unaware of any potential change to their tax. The other opportunity with the Scotland Bill is to have more time to inform businesses and individuals of the potential change in the tax rate and more guidance to ensure a smoother transition. From that point of view, having more time also speaks to the matter.

John Mason: Would people realise that something was happening only if you actually changed the rate?

Rain Newton-Smith: Possibly, although, speaking as an individual, I think that people do not always pay much attention to individual fluctuations. I do not know whether that would be enough. It is much better to do it properly, have the right opportunities for HMRC to contact businesses and individuals and give individuals a fuller opportunity to take it in. I feel that there has been a missed opportunity in relation to how well the information has been communicated up to now, and there is an opportunity to improve that.

The other thing that a lot of people here have spoken about is how businesses are dealing with a lot of other changes at the moment. The apprenticeship levy, set at 0.5 per cent, is coming in. The levy board will help to determine how some of that money is spent both in Scotland and in the rest of the UK, but clearly there is a lot of uncertainty around that. We have also seen the introduction of the living wage, which is a huge change for a lot of businesses to take forward. From that point of view, having a bit more stability at this stage could be helpful.

Gavin Brown (Lothian) (Con): We have only a matter of months in which to get the SRIT absolutely right. We will hear about a potential rate next week, and absolutely everything will go live in April.

The range of views with regard to HMRC among the four of you is interesting. To paraphrase slightly, the SRC seems to think that HMRC is okay; the FSB seems to think that it is good; the CBI has concerns; and the IOD thinks that it has been woeful, or woefully inadequate. I was surprised to hear those very different experiences.

I suspect that HMRC will be either watching right now or reading the *Official Report* of the meeting. If it was here today, what would you highlight as a handful of things that it must focus on at present to get not just pass marks from all of you but 100 per cent pretty much perfect results come April? Are there any big measures or practical things that it ought to be undertaking right now to make sure that we get this right in April? I would be interested in hearing a brief view from each of you.

Susan Love: I find it deeply troubling to be defending HMRC, as that is not usually the FSB's position. However, we have to be fair and make it clear that, in our discussions and dialogue with HMRC to date, all our questions have been answered and all the suggestions that we made were taken on board. Despite some bad headlines, the National Audit Office report on HMRC's preparations so far was relatively good.

In our view, there are a couple of things on our worry list that need to be dealt with now. First, there are a couple of outstanding technical details that have been raised with employers but which have not quite been answered yet. For example, the guidance is very clear that employers negotiate with HMRC regarding Scottish taxpayer status, but under the real-time information system, employers must make a change in address that any employee might tell them about. My understanding is that the way in which the dialogue between the employee and HMRC and between employer and employee works across those two systems has not yet been worked out. There are some little technical glitches that still need to be sorted out, and advice needs to be given to employers.

Moreover, the website could have clearer information for employers. One question that has come up in the past few days concerns the lack of a phone line for employers. If questions arise from employees, there is at present only a website and the contact centres, and we all know about the difficulties that employers face in trying to get through to an HMRC contact centre. Sorting out the glitches, improving the information on the website and possibly putting in place a phone line for employers might be useful.

Gavin Brown: That is helpful.

I suppose that, with regard to the phone line, HMRC would argue that there is a lot of information on the website. Nevertheless, you are right: there will be questions that the information on the website will not answer. Your view is that, certainly in the short to medium term, a dedicated employer phone line might be needed, if only for six months until the system is up and running—

Susan Love: It is a suggestion. At present, HMRC has said that all contact centres are fully briefed and have the right answers to employers' questions, and this is just a suggestion in response to concerns that we are aware of from small businesses about the ability to get through to HMRC.

David Lonsdale: I do not have too much more to add. I started this job at the beginning of last year, and I have mentioned in my introductory meetings with members that the devolved income tax is coming down the track. We must bear in mind that Calman was six or seven years ago, and since then, we have had the Scotland Act 2012. Those of us trying to keep abreast of public policy know that the SRIT has been coming, and I have been flagging it up; indeed, it was in our budget submission to John Swinney in summer last year. Our members have been reasonably up to speed with the fact that it is happening.

Gavin Brown: So, over and above what Susan Love said, there is nothing specific that you would ask HMRC if it were here today.

David Lonsdale: Nothing.

Rain Newton-Smith: Generally, we always try to make the case that HMRC needs the resources to do its job properly. We would like to see from HMRC more guidance on the interaction between the Scottish rate powers and other elements of the tax system, particularly double taxation agreements. As I have said, inquiries directed at Revenue Scotland are redirected to HMRC, and simple things such as putting a link on the Revenue Scotland website can be done. Moreover, it needs to be made clear that it is up to individuals to ensure that their correspondence addresses are up to date and accurate, and HMRC needs to examine its records for individuals. Our submission highlights those points as things that could be done.

Gavin Brown: That is helpful.

In section 2 of your submission, you provide a helpful list of more complex situations. Have you submitted those to HMRC, and is it actively answering those questions?

Rain Newton-Smith: We have shared with HMRC some of the questions on which it would be helpful to have more examples and guidance. It could not only provide that guidance but make it more public.

Gavin Brown: I found the list hugely helpful. Of course, we will never get an exhaustive list but is this list exhaustive as far as you are concerned, or do you have a bigger list somewhere on which you are also working?

Rain Newton-Smith: We do not have a bigger list hidden under a table somewhere. Having read the guidance, our tax experts, in consultation with our members, highlighted those questions as areas in which it was not clear what the ultimate decision would be. Therefore, it would be helpful to have more guidance on some of those complex cases.

David Watt: I hope that I have not portrayed HMRC as woeful; I have had positive engagements with it over a long period, almost from the day when the concept of the SRIT came along, and have been involved in some of the debates on how we define Scottish taxpayers. However, you have highlighted some of the issues with it, Mr Brown, and you have mentioned the list in the CBI submission and some of HMRC's practical difficulties.

To be blunt, the letters arrived on our doorsteps this month—some people are still getting them, I think—and we start in April, so there is not a lot of time to deal with complicated cases. There will be a lot of such cases, including those involving people who are non-executive directors in London but who live in Scotland. There will be some fairly complicated issues to address, such as time allocation. The concern is that such individuals will not be ready if a different rate of income tax is levied in April, and I am not totally sure that all the issues will be covered or sorted out by then.

This is probably more of a personal point, but the Government and HMRC seem to believe that, if they put something on their website, it is solved. However, that is not true. To be frank, most of my members simply do not spend their time surfing the web; they will do so if they find the time or have to do it. A big organisation has a human resources department and a finance department, and they consider such issues and will find out the information. However, many others struggle to do that as regularly and in as timely a manner as they should. The other point that we mention in our submission is the cost to employers of substantial changes in the income tax rate. The complications might increase, and that is when the cost would start to rise. Those areas have probably been mentioned already.

I have to say, though, that I am not all that clear about the dispute procedure. I absolutely accept that it is down to the individual, but I imagine that, at some point, HMRC will come back to individuals and say, for example, "We do not agree that you live in Kilmarnock; you actually live in London." How that works out will come out a wee bit in the testing.

Gavin Brown: In paragraph 2 of your submission, you say:

> "We are sceptical, however, that additional implementational issues will not emerge over the next four months which necessitate further implementational changes."

Is that just a general scepticism—in other words, you think that we should be ready, simply because things always go wrong—or is there anything specific that you think will go wrong and would like to flag up publicly?

David Watt: This is a general comment but it relates to my point that a number of our members are complicated people. They might be self-employed and working in a variety of businesses, or they might be a non-executive director for a company and be employed by another company. That makes things slightly more complicated, and it also means that their residence is likely to be slightly more flexible than it is for some other people. As the convener mentioned, a bus driver or nurse will be location based; however, many of my members are not location based.

Gavin Brown: That is helpful. Thanks very much.

Jean Urquhart: I guess that most of your members will see themselves as unpaid tax collectors, in a sense. Many small businesses use that phrase. I probably should declare an interest: I am a member of the Federation of Small Businesses. Beyond what I said, the burden of being a tax collector really will not be affected one way or another by the income tax rate. That is one of the questions about the Scottish rate of income tax. Whether it went up by 2p or 3p, as far as the employer is concerned, it is about the structure and identifying members of staff, but even that will not be down to them. Is that right? Do you agree with that?

The Convener: Who specifically are you asking about that?

Susan Love: I will just dive in. Since the Scotland Act 2012 was passed, our focus has been on how the tax would be implemented and trying to minimise its impact on small businesses as employers. That ultimately resulted in the arrangement whereby the work is essentially between HMRC and the employee. That is where the main negotiation lies, rather than it being up to the employer to determine residency and notify HMRC. From our perspective, that was helpful, as it minimised the additional burden of the tax change on small businesses as employers.

Generally, it is the structure rather than a change to the rate that creates an issue for employers. It is possible that rate changes will result in additional work for employers if there are more questions from employees. They might not have expected that, and there might be extra work but, by and large, it is the structure rather than the rate that creates an issue for employers. However, we have minimised that as much as we can in the approach that has been taken with the Scottish rate of income tax.

David Watt: Obviously, it rather depends on the size of the employer. In companies where everything is automated—at Standard Life, for example—an S code goes in and the computer is programmed to work for X thousands of people. In such cases, the matter is probably fairly straightforward and your point is valid. There would not be a lot of work. However, many businesses still do things manually with an Excel spreadsheet.

Your point is interesting. There is always a danger of forgetting that. I regularly refer to one of our members who runs an engineering business in Fife and employs 100 people. In his view, he employs 10 people who do nothing but cost him money. One collects taxes and does returns for the Government; another does health and safety and so on. There are issues. We must always remember that all those things potentially add costs to employers, and anything that makes the process apparently even slightly more complicated will not be welcome.

Your point that the process might not be seen to be more complicated until the rate changes is possibly valid. It might just be about the S in front of the person's code, but the process can become a little bit more cumbersome if the rate changes, details are manually entered for 100 employees, there are problems and complications with individuals and they start to appeal. There is no question about that.

Jean Urquhart: It confuses the issue if we start to talk about other taxes, does it not? It confuses the issue if we talk about business rates and the Scottish rate of income tax in the same debate, for example, as they really have nothing to do with each other. It seems to me that the message about the Scottish rate of income tax is directly between the Scottish Government and the Scottish people—the workforce. They are both affected. The Scottish Government would potentially have more income and the workforce would pay slightly more tax. Do you agree that their relationship and that communication will be more important at the end of the day?

Susan Love: To a certain extent the main communication issue is about taxpayers understanding the difference. However, the issue came up earlier that the extent to which taxpayers notice or care will depend on whether the rate changes, and even then they might not care which Government has put up or put down their tax.

There is still a job to communicate with employers regarding the change, in case problems arise between now and April or after April. We think that, broadly, we have done what can be done, but there are those little glitches that may create additional problems. There needs to be communication with employers so that they are aware of what is going on.

11:45

Jean Urquhart: The Scottish Government has declared a minimum living wage, which it is encouraging all employers in Scotland to pay their staff. It is not the so-called "living wage" or the minimum wage that has been set in Westminster. If you were an employer, would you think that the right time to increase a rate of tax is when the Government is trying to make sure that everybody employed in Scotland is earning a wage that they can live on?

Susan Love: Who wants to go first?

The Convener: That is not really what this session is about, Jean; it is about the Scottish rate of income tax. I think that that would be digressing a wee bit, but if panelists want to answer, they can.

Susan Love: All I would say—other than commenting on the correlation between the national living wage, the living wage and rises to income tax—is that those pay increases and discussion about wage levels are a serious preoccupying factor for employers at the moment in Scotland. That may make them slightly less receptive to discussion about the Scottish rate of income tax. As you will know from speaking to businesses in your local area, for those affected, managing the increase of the national living wage and pension auto-enrolment are the dominant concerns of a lot of businesses at the moment. That is where their heads are, that is what they are concerned about, and they are probably less concerned about the Scottish rate of income tax at the moment.

Jean Urquhart: That is all I had to ask.

Mark McDonald: I have one question, which relates to discussions or concerns that have been raised about payroll. I suspect that the CBI and the SRC represent a number of businesses whose payroll function is not located in Scotland and, therefore, that payroll function will have to administer both the Scottish rate and the UK rate. Have you heard any concerns from your members about the administrative impact of operating those two rates through the same payroll function?

From an FSB perspective, I am aware that a lot of small businesses outsource their payroll to companies that offer only a payroll function. Many of those companies are in a similar position in that they offer that function across the whole of the UK rather than purely on a Scottish basis. Specifically in the FSB context, have any of your members who employ such a function had any indication that they may face additional cost burdens as a result of the SRIT? Although there may not be an upfront cost burden, that is not to say, for example, that organisations or businesses will not attempt to put up the rate that they charge Scottish companies on the basis that they would have to administer any future SRIT changes.

Rain Newton-Smith: You are right; obviously companies have to make sure that their payroll systems are prepared for and can administer an S tax code. That is true for businesses located both in Scotland and in the rest of the UK.

Our members have expressed more concern about making sure that they have the right guidance from HMRC on some of the more complicated cases, as I have suggested. Some of our other concerns are the lack of public awareness and that it must be clear that it is the individual’s responsibility to determine their tax status. Those are issues that our members have mentioned more often.

Mark McDonald: Sure, but I just want to pick up on that issue. I have no examples to give, but I suspect that there are a number of companies whose payroll function is located south of the border. Are you aware of whether HMRC has done any work with regard to such circumstances?

There has been an effort to ensure that we as Scottish taxpayers know what our rate will be. I suspect that businesses that are located in Scotland will have had communication to that effect. What efforts—or otherwise—are you aware of by HMRC in order to ensure that companies whose payroll functions are administered outside Scotland know what is happening?

Rain Newton-Smith: We have picked up that there has not been enough communication and awareness around that particular issue.

Susan Love: We do not represent the payroll sector per se, but from the various meetings that I have attended, certainly over the past 18 months, my understanding is that there has been significant engagement with payroll software providers in particular. In the latest update that I read, HMRC felt that that angle had been pretty well covered and that those who deal with all the software products that businesses use—regardless of where they are based—are up to speed with the change and capable of dealing with it. The issue of payroll software has not been on our list of specific concerns.

Mark McDonald: Picking up on the point that I raised with Susan Love about companies that offer payroll functions for small businesses, has there been any indication at all that those companies are passing on an additional cost burden as a result of the SRIT, or anything along those lines?

Susan Love: Not at the moment—I have not heard anything about that. Half of our members have pay-as-you-earn done externally and the rest do it internally, either through software or by using tables and doing it manually. We have not heard anything yet to suggest that that is happening, but we will obviously keep a close eye on the matter.

Mark McDonald: And from your perspective, David?

David Lonsdale: We have members who are headquartered in Scotland and others that are headquartered elsewhere in the UK. In our submission we point to “some disquiet” about the lateness of the technical advice. You have put your finger on the issue: the disquiet came from HR and finance teams outwith Scotland.

We need to bear it in mind that the change does not just involve Scotland setting a Scottish rate of income tax: Wales will get control of income tax too. It was announced in the autumn statement that that will no longer be subject to a referendum in Wales.

For payroll managers and HR directors, the picture with regard to income tax is increasingly complex. There are aspects such as the apprenticeship levy, as others have mentioned, for which each constituent part of the UK will have its own approach, and there are a range of other issues to the fore; we have talked about the national living wage and employer pension contributions, for example. It is quite a noisy period for people who are in a company that has a pan-Great Britain or pan-UK operation. The very nature of the retail sector is such that someone can quickly develop quite a sizeable business because of the nature of the industry, and they may have 10 or 100 shops.

Mark McDonald: I am conscious that I have not brought in David Watt. Does the IOD have a view on the matter from its members' perspective?

David Watt: I do not think that there is anything to add. In a brief conversation with colleagues down south, there was a bit of concern expressed. HR departments that are headquartered in England or in the rest of the UK tend to be less informed than people in Scotland, to be honest, but that is a small issue. Again, such companies tend to be larger employers, so they are probably more able to cope with the change relatively easily, in terms of not only software, as Susan Love mentioned, but personnel.

There is a middle swathe of businesses, and we have a lot of those in Scotland. As an illustration, an engineering company might have a few challenges if the situation gets more complicated, as David Lonsdale described. It is part of an overall complication that businesses are facing, to be fair.

Susan Love: We have to be realistic: everything is not going to go perfectly in April. Some of the procedures and processes that have been agreed between employers and HMRC will turn out not to be the right way to go about things.

For example, one issue concerns the coding notices for new starts in businesses. At present, the advice for employers is that, if someone does not have a P45 and an S code, they should be started on the UK code until HMRC informs the employer that the employee has an S code. Once the rate is introduced, most employers will want to code automatically with an S code because they will know that the person lives in Scotland. However, that is not the advice, so they will have to change the code once they are notified by HMRC.

With those little process issues, once the rate is implemented and systems operating, we may all decide that there is a better way of doing things and that we need to change what we are doing. We just have to be realistic about the fact that there will be problems that arise after April. That is just a natural part of the process.

The Convener: That concludes questions from the committee. If witnesses have no further points to make, we will wind up. I thank you all for your contributions, and I thank Alison Wilson for clerking the meeting.

Meeting closed at 11:55.

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