



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 17 December 2014

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PUBLIC AUDIT COMMITTEE
20th Meeting 2014, Session 4

CONVENER

*Hugh Henry (Renfrewshire South) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Nigel Don (Angus North and Mearns) (SNP)

*Colin Keir (Edinburgh Western) (SNP)

Ken Macintosh (Eastwood) (Lab)

*Gil Paterson (Clydebank and Milngavie) (SNP)

*Tavish Scott (Shetland Islands) (LD)

David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Eleanor Emberson (Revenue Scotland)

Caroline Gardner (Auditor General for Scotland)

John King (Registers of Scotland)

Rebecca Seidel (Audit Scotland)

Gordon Smail (Audit Scotland)

Alyson Stafford (Scottish Government)

Mark Taylor (Audit Scotland)

Sandra White (Glasgow Kelvin) (SNP) (Committee Substitute)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit Committee

Wednesday 17 December 2014

[The Convener opened the meeting at 09:00]

Interests

The Convener (Hugh Henry): Good morning and welcome to the 20th meeting of the Public Audit Committee in 2014. I remind members to set their electronic devices to silent or flight mode so that they do not interfere with the recording equipment.

David Torrance has sent his apologies and Sandra White is substituting for him today. I ask Sandra to declare any relevant interests.

Sandra White (Glasgow Kelvin) (SNP): I have no interests to declare, convener.

The Convener: Ken Macintosh will be joining us later and Nigel Don has to go to another meeting at some point, but he will come back.

Decision on Taking Business in Private

09:00

The Convener: Item 1 on the agenda is the decision whether to take item 5 in private. Do we agree to take that item in private?

Members *indicated agreement.*

Section 23 Report

“Preparations for the implementation of the Scotland Act 2012”

09:01

The Convener: The next item is evidence on the section 23 report “Preparations for the implementation of the Scotland Act 2012”. Caroline Gardner, the Auditor General for Scotland, is here today and is joined by Gordon Smail, senior manager, Rebecca Seidel, project manager, and Mark Taylor, assistant director, who are all from Audit Scotland.

I invite the Auditor General to make some comments.

Caroline Gardner (Auditor General for Scotland): The report that I am bringing to the committee today considers the Scottish Government’s progress in preparing for the financial measures in the Scotland Act 2012, including the introduction of the two new devolved taxes, new borrowing and cash management powers, and a Scottish rate of income tax.

Before I set out what we found, I would like to highlight two important points. First, establishing the arrangements for the new powers is a large and complex task, which includes developing an overall approach to devolved tax and the legislative framework to implement it. The Scottish Government has successfully developed a legislative framework for the devolved taxes, through three bills that have been passed by the Scottish Parliament. Secondly, the changes that come into force next year through the Scotland Act 2012 are even more significant when set into the context of the recent report by the Smith commission and the heads of agreement on further financial powers for the Scottish Parliament.

My report focuses on the preparations for administering the two new devolved taxes, land and buildings transaction tax and Scottish landfill tax, which come into effect from April 2015. It also provides some initial observations on progress towards introducing the Scottish rate of income tax. It is important to note that the audit was carried out while preparations for the implementation of the 2012 act were on-going. Given the scale and importance of the changes, I felt that it was important to review progress at this stage, before the new powers come into effect next year. The report acknowledges that substantial activity continues within the Scottish Government.

I will briefly summarise my findings under three headings. First, on the devolved taxes, we found

that the Scottish Government has established clear structures for managing the set-up of the new tax authority, Revenue Scotland, and now has well-developed plans for implementing the devolved taxes. However, the staff needed to manage the overall programme were not in place early enough and there were also delays in procuring the Information Technology system to collect and administer the devolved taxes. That has reduced the time available to develop the IT system and to appoint staff to Revenue Scotland's operational team. As a result, there is an increased risk that the IT system may not be fully operational by 1 April and that Revenue Scotland may not have the required expertise fully in place to manage the devolved taxes effectively when they come into force. That could result in tax payments taking longer to process and lead to an increase in processing costs.

To be clear, I am not saying that nothing will be ready in time; I am saying that there is more risk of things not being fully in place, resulting in the need for short-term alternative arrangements, which has potential cost and performance implications. Revenue Scotland is fully aware of those issues and is taking steps to manage them.

The report makes some short-term recommendations for Revenue Scotland. In particular, we would like to see it closely monitoring the development of the IT system and recruitment to its operational team. That will help Revenue Scotland to decide whether to implement its contingency plans to ensure that it is in a position to manage the devolved taxes effectively from April 2015.

Secondly, we found that the Scottish Government is working closely with HM Revenue and Customs to prepare for the introduction of the Scottish rate of income tax in April 2016. We have highlighted the fact that the Scottish Government needs to ensure that it has enough appropriately skilled people in place to support the successful implementation of the new responsibilities in 2016.

Finally, we found that the Scottish Government is working to incorporate the financial aspects of the Scotland Act 2012 powers in its financial management arrangements. The new financial powers that the 2012 act introduces, and the prospect of further powers following the Smith commission's report, have significant implications for Scotland's public finances. All of that makes the need for comprehensive, transparent, reliable and timely financial reporting even more important. I plan to publish an update report on the progress that the Scottish Government is making on developing its financial reporting early next year, and will continue to keep this area under close review.

As always, my colleagues and I are happy to answer the committee's questions.

The Convener: We should not underestimate some of the complexities that are involved in setting up a completely new tax collection system, and I suppose that we should not underestimate the historic and political significance of doing so, particularly when we consider what lies ahead. We need to get this right. We need to prove that the Scottish Government and the Scottish Parliament are competent with regard to handling tax collection.

Would you say that your report is dated, or does it have continued relevance?

Caroline Gardner: As we say in the report, the audit work on which the report is based was completed in early November. We had been looking at the matter throughout 2014, and the team can give you more detail about that. With any report, there comes a point at which we have to draw a line, draw our conclusions and go into the process of agreeing it for factual accuracy. Therefore, as of early November, the report is fully up to date. In these circumstances, we know that Revenue Scotland and the Government have been working hard since then to overcome some of the problems that are identified in the report. I am sure that they will be able to report to you on the progress that they have made.

The Convener: You completed your report in early November, and you published it in early December. The normal process is that you give a private copy to those concerned so that they can make private comments—in this case, presumably, the Scottish Government and Revenue Scotland. Is that correct?

Caroline Gardner: Yes. We always ensure that our reports are agreed for factual accuracy to avoid this committee having to arbitrate in disagreements between us and the people we are auditing. The team will keep me straight, but I think that, in this case, the report was agreed for factual accuracy fully with the Scottish Government and Revenue Scotland, and sections were cleared with the Scottish Environment Protection Agency, Registers of Scotland and the Scottish Fiscal Commission.

The Convener: So, between early November and 11 December, those concerned had the opportunity to challenge the accuracy of anything that you said and say whether it gave a wrong interpretation or analysis. Was the wording of the final report challenged by any of those concerned?

Caroline Gardner: It is normal for us to make minor changes to the wording to ensure that we are fully reflecting the situation at the point at which the report is agreed. That was the case with this report, too.

The Convener: However, when you reached that final wording, there was no further challenge to those words.

Caroline Gardner: No. However, it is important to distinguish between factual accuracy and the conclusions that I draw from those facts. The factual accuracy of the report was fully agreed.

The Convener: Would you say that your comments about readiness and the fact that there was a risk that the full IT system might not be in place in time were positive comments, negative comments or comments of concern? How would you assess the readiness of the IT system at that point in terms of red, green or amber?

Caroline Gardner: As we say in the report, at that point the progress that had been made on developing and testing the IT system and on appointing the staff who will be needed to administer the new taxes was behind where the Scottish Government and Revenue Scotland had planned it to be. We know that a significant amount of work is going on to remedy those delays, and the Government has told us that it is confident that things will be in place on 1 April. That is why I have reported in the terms that I have and have said that there is an increased risk that things might not be fully in place, although I have reflected the fact that contingency plans are in place to ensure that the taxes can be collected on 1 April.

The Convener: Things are behind schedule, progress is not being made and there is a risk—if I asked you to assess those facts as being either positive or negative, how would you assess them?

Caroline Gardner: It is clear that the Government and Revenue Scotland would prefer to have been able to fulfil the plans as they were originally set out. We all want to see the new taxes working on 31 March. As I said in my introductory remarks, however, I am not saying at this point that it will be impossible to collect them; I am simply saying that there is a risk that contingency plans will need to be put in place and that doing so could have cost and performance implications.

The Convener: Can you say to the committee this morning that, on the date that you produced your report and sent it to the parties concerned, you had nothing negative to comment on—that it was all positive?

Caroline Gardner: No. As my report says, I think that there is an increased risk that the system will not be fully in place as planned on 1 April, but I am certainly not saying that the Government and Revenue Scotland will not be in a position to collect the taxes at that point.

The Convener: At the point that you produced the report, therefore, there were some concerns.

At that point, you were worried that there was a lot of work to be done. Would it be fair to say that things were not necessarily on track at that time?

Caroline Gardner: It might be helpful for me to refer the committee to exhibit 3 on page 14 of the report, which shows the progress made in implementing the IT system to deliver devolved taxes. On the left-hand side you can see what the Government originally planned, and on the right-hand side you can see what happened in practice. It is clear from that that progress was slower than planned.

As we say in the report, as a result of those delays, Revenue Scotland and the Government have been developing contingency plans that, first, they hope they will not need to use, but, secondly, they believe will be able to deliver the devolved taxes on 1 April if needed.

The Convener: If there was nothing negative to report between early November and when your report was published, how can you say in your report that the delays have increased the risk that the IT system may not be fully functioning by 1 April, and that Revenue Scotland will not have the required operational expertise in place by then? Either what you say in the report is wrong, or the statement that there is nothing negative to report is wrong. Which would it be?

Caroline Gardner: What I need to make clear is that the audit work was completed in early November. I do not have evidence that I can bring to the committee in the way that I normally would about what has happened since then. You may well want to explore that with your next panel of witnesses, but my evidence tells you that, as at the beginning of November, those delays had materialised and they had led to an increased risk.

The Convener: Between that point in November and the publication of your report, did none of the agencies or organisations concerned come back to you with further evidence to say that events had changed and everything was back on track and fully functioning? Have they accepted, after comment, the details of your report?

Caroline Gardner: They accept that the report was factually accurate as at the date that we sent it to them for clearance.

The Convener: Right.

Mary Scanlon (Highlands and Islands) (Con): I will follow that line of questioning for a moment.

Between the first week in November and publication of the Audit Scotland report on 11 December, we had Eleanor Emberson and John King speak to the Finance Committee. Eleanor Emberson said:

"We have had small numbers of amber indicators out of two dozen"

but

"we have been working hard to turn ... them back to green."

She also said:

"We have nothing at red."

John King said:

"ROS is confident that we have everything in place that will support effective delivery ... The system has already been delivered and tested, and it is available to Revenue Scotland's IT team to use."—[*Official Report, Finance Committee*, 26 November 2014; c 30, 31.]

Those statements were made to the Finance Committee, and I know that that committee will be asking questions later today. That was a very confident delivery to the Finance Committee, given that the Auditor General's report is telling us of an increased risk.

At a date between 7 November and 11 December, the Parliament's Finance Committee was given confident assurance that everything was wonderful, so what happened? As we know from responses to the convener's questions, the organisations agreed to your report, which is highly critical and highly concerning to both the Finance Committee and the Public Audit Committee, so why was such a glorious, confident pitch given to the Finance Committee to say that everything was in order, and why do we now receive this report today?

09:15

Caroline Gardner: All that I can do is repeat that the conclusions in my report are based on the audit work that we carried out up until early November, and I am confident that the conclusions that I have drawn in it about the increased risks to successful delivery of the new taxes reflect all the evidence that was available to us. For developments since then, you will need to ask colleagues from the Scottish Government and Revenue Scotland about the work that they are doing and the basis for their confidence.

Mary Scanlon: I have no doubt about, and do not lack confidence in, the accuracy of the Audit Scotland report. However, as a member of the committee and being charged with the duties that we are charged with, I have to say that I was shocked to read your report about increased risks two weeks after the confident claim that everything was in order. That is perhaps a matter for the next panel.

I return to the report that you gave us in August 2012, "Managing ICT contracts: An audit of three public sector programmes", which looked at Registers of Scotland. It is an old report, but you highlighted the fact that

"The Scottish Government provided limited support".

You were quite critical of the fact that the Scottish Government had failed to support the organisations, including ROS, so it is quite shocking that paragraph 30 your report of 11 December 2014, which we are considering today, says of Revenue Scotland:

"It explored the option to develop the IT system fully within the Scottish Government. This was rejected at the end of April 2014, as the Scottish Government did not have the staff or expertise available to develop the system within the timescales, due to other commitments."

What was the Scottish Government doing that was more important than preparing to collect more devolved taxes in Scotland? Can you tell us what those other commitments were, because that was flagged up two years earlier?

Caroline Gardner: We are currently carrying out work that will be reported in 2015-16, following up on the report that you are referring to, looking at the overall progress that the Government is making with its management of large IT systems. The committee will be aware that I have brought a couple of other reports to the committee recently—on the agricultural futures programme and NHS 24—looking at the challenges that the Government is still facing in that area. I think that it is fair to say that Government as a whole, not just in Scotland but more widely, faces problems in getting the appropriate skills and resources to develop those big systems.

What we have seen in relation to the new tax powers is a detailed process of making the decision about whether the best course of action was to develop the system in-house or to go externally. That decision was taken later than originally planned but, at this stage, we have no concern that the decision to go externally was not the right one to ensure that the system could be in place quickly, given other competing demands. The committee will be aware that the agricultural futures system is also one that brings with it a great deal of financial risk, and there is always a prioritising process going on to decide on the best approach, given competing demands.

Mary Scanlon: I am sorry to be a little bit boring and I appreciate the facts that you have outlined, but I am now becoming one of the older members of the committee so I have a bulky filing system in my office, and I have a copy of a submission to this committee from Paul Gray, which was sent in response to your report on managing ICT contracts. It is dated October 2012, and it refers to setting up delivery of public services, an organisation called SWAN—Scottish wide area network—and

"an action plan for the Central Government ICT Workforce to be available for consultation across the sector",

with gateway reviews every six months.

The committee was told that the smaller organisations such as ROS, Disclosure Scotland and the Crown Office and Procurator Fiscal Service would not be left to languish on their own, the Government would take charge, and all these wonderful systems and help and advice would be available. That was two years ago, and naively I took that at face value. More than two years later, we are hearing that the Government did not have time to sort it out, despite everything that we were told. What happened to the Government's big advisory service to help organisations such as ROS?

Caroline Gardner: The decision that was taken in January to give Revenue Scotland a more central role in collecting the two new taxes that are due next year was very much a reflection and recognition of the fact that the resources available in ROS and SEPA were limited and that it might be difficult for them to do what was required. The decision to give Revenue Scotland a more central role reflected those challenges.

A decision was then needed on whether IT systems should be developed in-house or procured externally. Mark Taylor will say more about the way in which that decision was taken.

Mark Taylor (Audit Scotland): The decision to have a single IT system that was largely based in Revenue Scotland was a move from the initial thinking, which was to have a number of systems, including one in SEPA and one in ROS. Instead there was a decision to bring those systems together. Although the assessment of capacity was taken into account, the main driver for that decision was a look to the future and to the fact that further taxes may be devolved to Scotland, which, of course, the Smith commission had proposed. It was thought that having a single, centralised IT system that could accommodate those future taxes was the way to go. That was the core of the decision and we do not have any concerns with the nature of that decision.

Subsequent to that, the Government's plan was to build the system itself—it thought that it could. An understanding was then reached that, given the range of IT activity that goes on in the Government, there was a need to go outside to procure that resource. The issue that we raise in the report is in relation to the time between reaching an understanding that there was not sufficient in-house capacity, and making the procurement decision and putting in place the procurement arrangements, which squeezed the time available for development of the system.

As the Auditor General says, in the new year we will have a more rounded look at IT and how Government is managing it. The issue that we flag

up in the report in relation to this particular project is the time delay between the understanding being reached that an outside resource was needed and the decision to get the external resource in, which squeezed the time available.

Mary Scanlon: Twice you have highlighted that ROS asked the Government for help. In October 2012 it chapped on the door and there was limited support. When it next chapped on the door and said, "Please can you help us? We were assured that all the expertise and support is there," the Government said, "Sorry, but we have other commitments."

Why has the cost of setting up Revenue Scotland risen from £16 million to £20 million or £21 million?

Caroline Gardner: Gordon Smail will talk you through the figures, to keep us straight.

Gordon Smail (Audit Scotland): The explanation is in paragraphs 37 and 38 of the report. The initial amount was £16.7 million over seven years, but as you have seen in the story in the report, over time there were reassessments of what the job of collecting taxes and supporting the new tax administration would involve, which gave rise to an increase.

There is some detail in paragraph 38 about how amounts have increased over the period. The bottom line is that the revised start-up costs totalled £4.3 million, as opposed to the £3.2 million that was expected over the two years. The set-up costs are now over three years, so there is explanation there of why the amounts went up.

Mary Scanlon: I am sorry to be boring, but I heard the finance secretary tell Parliament that, through the Scottish Government, the set-up and operational costs

"will be at least 25 per cent lower than they would be had I asked HMRC to deliver the status quo. Through revenue Scotland, we will serve the needs of the people of Scotland at a lower cost than the UK set-up".—[*Official Report*, 7 June 2012; c 9906.]

The costs have now risen from £16.7 million to £21 million, so instead of the process costing 25 per cent less than it would have done had we used HMRC, it will cost us about £1 million less than the £22 million that HMRC estimated that it would cost. Why did the finance secretary say that the set-up and operational costs would be 25 per cent lower than the cost of using HMRC when the actual saving will be less than £1 million? By the time the new body is set up, we will be very close to HMRC's figure. I cannot imagine that Mr Swinney would have wished to mislead Parliament. Why has the commitment that he gave changed so much?

Caroline Gardner: Our understanding is that the finance secretary's statement was based on the original estimates that were provided by the Scottish Government and HMRC for administering the devolved taxes.

Mary Scanlon: That is what the £22 million figure related to, but he said that the Scottish Government was going to do it 25 per cent more cheaply.

Caroline Gardner: Yes. At that point, the Scottish Government and HMRC produced estimates of what the costs would be. The Scottish Government's costs were lower. You have highlighted the increase in the Scottish Government's costs; what we do not know is what would have happened to HMRC's costs over the same period. I am not in a position to comment further on whether there is still a difference between them.

Mary Scanlon: Was the Scottish Government realistic in its estimate that the costs would be 25 per cent lower than they would have been had HMRC been involved? The costs are now 5 per cent lower than those of HMRC.

Caroline Gardner: It is clear that the changes have arisen as the Government goes through the process of establishing a tax authority for the first time. I am afraid that we simply do not know what the counterfactual would have been had HMRC been asked to do the work.

The Convener: I will bring in Colin Keir and then Tavish Scott. We might have to squeeze members' contributions, because the witnesses on the next panel have to be at the Finance Committee for 11.30, so we will need to work within that timescale.

Colin Keir (Edinburgh Western) (SNP): Good morning. It seems to me that, to a certain extent, what has been said about the report has been overtaken by events. There is actually quite a lot of good stuff in it—I see it as a fairly positive report; the two issues are with staffing and IT. We might have on-going difficulties with the audit function as regards the rate of income tax, because Audit Scotland will not be the main functionary in that area. As a committee, we have talked about that over a period of months.

I turn to exhibit 3 on page 14 of the report. Last week, in an answer to Mr Rennie, the First Minister gave us an update on the Revenue Scotland staffing situation. Exhibit 3 is extremely helpful and is quite illuminating in that it shows that, between January and April, the initial decision to develop the IT system in-house was reversed after it was realised that, for whatever reason, it would be better to go to an external supplier.

The revised plan appears to be moving forward. At the point at which the report was prepared, you had some concerns, which I think have been allayed by what has been said recently. It is heartening to see that we have not ended up in the situation in which some other major IT projects have ended up, whereby they ploughed on regardless despite going way over budget, only to realise at a later stage the cost implications of doing so.

Something is happening here in that the revised plan would appear to be more or less on track. As we know, every IT system has a risk in it somewhere along the line. I am actually very heartened by a lot of what is in the report, because matters have been identified and taken forward.

We are looking at all this retrospectively. We had a clear answer from the First Minister on Thursday on the issue of staffing. Auditor General, you say that there is a risk. Moving away from the report, at this moment in time and given what you have heard in the past few weeks, is the risk the same as it was when you wrote the report or do you see a lightening of the load? The First Minister was fairly clear that although there are contingencies, there is no intention to use them at this time, given the work that has been done.

09:30

Caroline Gardner: I do not think that I can answer that question, Mr Keir. We stake our reputation on credible work that is grounded in the audit evidence that we have. That is what you have in the report in front of you. The report is very clear that some things have been achieved well, including establishing the overall framework for taxes, the bills that have been passed and the progress that is being made in other areas. Equally, at the time that we concluded the audit work and I made my audit judgments, I felt that there was a risk that both the staffing and the IT might not be fully in place at the end of March.

We hear, as you have done, that a significant amount of work is going on to make sure that everything that is required is in place, but without auditing that I do not feel that I can take my conclusions further than I have done at the moment. We all want this to work and we very much recognise the amount of commitment and investment that the Scottish Government and Revenue Scotland are making in that regard, but I need to reserve my position until I have audit evidence to work with.

Colin Keir: At the time that the report was written—I am certainly not having a go at you about that—there were concerns, but I think a lot of us are feeling a bit happier simply because of what we have heard after that. The enlightening bit

of exhibit 3 was the relatively quick decision to say, "This is beyond us", for whatever reason and to move the IT system to an external source. I think that that is commendable and it is good that it is highlighted in the report.

Caroline Gardner: As we have said, that looks to us like a sound decision. We also say in the report that Revenue Scotland has detailed plans in place. Our finding alongside that is that, had the scale of the programme been recognised and staffed for earlier, some of those delays might not have happened. However, the response at this stage makes it clear that a significant commitment and investment are being made.

Colin Keir: Given that we are pressed for time, I will leave it there just now.

Tavish Scott (Shetland Islands) (LD): I want to deal with the dates, because they really matter in this report. Auditor General, you said that the Audit Scotland report was completed in early November. Can you give us the actual date?

Caroline Gardner: I will ask Mark Taylor to talk you through the final stages. This was fast moving all the way through, as you can imagine.

Mark Taylor: It is worth saying that because of the fast-moving environment, we did everything that we could to try to get an understanding of the position up until we needed to go to press. The effective date on which we had final pieces of evidence put in front of us was the end of October. We then had a bit of reflection and discussion on what that meant. That is how we came up with the date of early November. We were doing field work and taking bits of evidence until the end of October, and then we had some further discussion in the early days of November.

Tavish Scott: When was the factual accuracy of the final report cleared by the Government and Revenue Scotland? What date was it cleared on? You must have e-mails that say exactly when it was cleared.

Mark Taylor: We can get back to you on the specifics but, broadly, it would have been about a week into November—in the first half of November. Rather than my trying to have a stab at the exact date, which colleagues here do not know, we will come back to you on it.

Tavish Scott: So, it was in the first half of November and then it took from the middle of November to 11 December for it to be published. Nothing happened in that period; the report was just being sent to the printers and all the rest of it.

Mark Taylor: Yes.

Tavish Scott: Auditor General, you said in your opening remarks that staff were not in place early enough. Did you discover why not?

Caroline Gardner: The team will want to add to what I am about to say. There are two dimensions. In paragraph 14, I make the comment:

"Revenue Scotland did not put the required staff in place early enough to manage a programme of this scale and complexity."

The staffing required for the tax administration programme element was slower in coming together than was needed, with hindsight and thinking through the whole way in which the arrangements would work.

Beyond that, evidence is coming through, both in our findings about why costs have risen and in our evidence to the Finance Committee, of the growing understanding of what is involved in putting together a new tax administration authority of this scale for the first time, where one has not been in place before. There was an element of underestimating the scale of the task earlier on, with an unavoidable element of simply learning from experience as the process goes on.

Tavish Scott: Did the Government bring in external expertise from people who have run tax systems, from other parts of the United Kingdom or anywhere else in the world?

Caroline Gardner: There has been close working, through the tax administration programme board, with a range of people from around Scotland and from further afield. I will ask Mark Taylor and Gordon Smail to talk you through the detail of how that has worked.

Tavish Scott: I just want to know, succinctly, if the Government brought in expertise, from wherever, to help it do the work.

Mark Taylor: It is important to distinguish between putting the project team together and putting the operational team in place. The project team is very much focused on getting the IT systems and the organisation established. The operational team then administers taxes.

The approach that the Scottish Government has taken involves the operational team identifying its own staff, but looking to draw on a pool of expertise to bring those staff into place and prioritise the technical posts. You can see that, at the time of writing our report, we recognised the progress that had been made. There were 10 positions filled at that point.

In terms of the project team—

Tavish Scott: Before we get on to that, what expertise did you find? What expertise was brought in?

Rebecca Seidel (Audit Scotland): It is worth noting that the tax administration programme board, which is overseeing the project to implement the devolved taxes, has

representatives from HMRC who sit on it. Expertise was coming in through those—

Tavish Scott: At board level.

Rebecca Seidel: Through the governance arrangements, yes.

We do not have details to hand about the staff who were employed as part of the programme team or about their background, but our understanding is that some of the staff have a background in tax administration.

Tavish Scott: You could say a bit more than “our understanding is”. I do not mean to be pushy, but it is really important to understand whether that expertise was brought in, or whether they are just civil servants who have been moved from a completely different department—they could have been running agriculture or something—and have suddenly been told to set up a tax system. I am trying to establish that you did not find that—that the situation was rather better than that. That is what I am driving at—I would like to know for sure that that was not the case.

Mark Taylor: I think that we were content that, in terms of oversight of the project and the arrangements, as Rebecca Seidel has discussed, the right people were involved.

Tavish Scott: I understand that.

Mark Taylor: There was an understanding of what the job was.

Tavish Scott: Okay—I think that I am reassured by that.

You have touched on this at some length already this morning, Auditor General: you said that the IT system may not be fully operational by go date in April. Your exhibit 3 shows that we are running two months behind schedule, according to the time plan. I guess that that is the cause of your concern about the risk.

Caroline Gardner: It is. As you say, the decision to purchase rather than to develop the system was taken later, and the procurement then took longer. The system is now in place. It is being developed and tested. As I say in paragraph 32 of the report, however, the delays

“have reduced the time available to ... implement the full IT system”;

to ensure that all the pieces act together;

“to ensure it is compatible with the Scottish Government’s accounting system”;

so that the money can be transferred into the Government’s accounts smoothly; to do user development, training and testing; and to ensure that all the various bits of the process work together as planned.

To be clear, I am not saying that there is not time for that to happen; I am saying that the time for it to happen has been reduced. The assurance is not yet in place.

Tavish Scott: That is fine—thank you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I share some of the confusion that has been expressed about the report. Overall, it seems to indicate a well-managed project that is progressing well, although two areas have been highlighted—human resources and IT. When you carried out the audit, Auditor General, did you look at the robustness of the contingency plans?

Caroline Gardner: When we carried out the audit work, the contingency plans were still being developed, so it was not possible to look at them in detail. We know that they focus on ensuring that the taxes can be collected come 1 April, but that more paperwork or manual processing might be required to do that than was originally planned. When we completed the audit work, those contingency plans were not developed enough to be audited.

Colin Beattie: A couple of things jump out in relation to the IT systems. In paragraph 36, on page 15, the report comments on the Government’s accounting system to record and account for the devolved taxes. It states:

“Currently, this work has not been affected by the delays in developing the central tax collection IT system.”

I am just a layman, but that looks to me as if the core system for recording and accounting for the taxation is already in place.

Caroline Gardner: The Scottish Executive accounting system—SEAS—is the core system and has been in place for a number of years. It is a long-standing and stable system. The challenge is to ensure that the IT system that will process the payments, particularly for the land and buildings transaction tax, can talk smoothly to SEAS, which is the financial system, and that the appropriate controls are in place, given the importance of those transactions.

Colin Beattie: So, actually, just one piece of the IT system looks like it might be running behind.

Caroline Gardner: No. There is the interface with SEAS, which has not yet been tested. The whole system for administering the taxes is the system on which the decision was taken late and the procurement was late, and of which the testing is still under way to ensure that it can do what is required come 1 April.

Colin Beattie: You have highlighted the decision to move to a central IT system, and you said that you agree with the wisdom of doing so.

What sort of delay did that contribute? I think that we are talking about seven or eight weeks' delay in total to the IT system. What proportion of that was caused by the decision to move to a different outcome?

Caroline Gardner: We have tried to lay that out as clearly as we can in exhibit 3. I ask Gordon Smail to talk Mr Beattie through the timeline in a bit more detail.

Gordon Smail: In January, a substantial and important decision was made that Revenue Scotland would take on more responsibility than was originally planned. As we say in the report, it is important to realise that when that decision was made, account was taken of preliminary work that had happened in SEPA and Registers of Scotland. Between then and April, the IT supplier was to be identified. In relation to the amount of time that the Government has to deliver the system and Revenue Scotland has to put the system in place, in hindsight, probably more could have been done over that period.

The Scottish Government was looking at the options for delivering the system and that tied in with the decision to externalise the system rather than use in-house provision, which we had a conversation about earlier—there were good reasons why the Government decided not to go down the in-house route. Having decided which road to go down, the Government then put in place the process of seeking an external supplier, as exhibit 3 shows. If you are asking where the delays occurred, there was a delay between the decision in January to go ahead with the revised system, which involved more work for Revenue Scotland, and, ultimately, the decision to get an external supplier. That was over quite a few months.

Colin Beattie: So you are saying that the delay was between January and April, when an external supplier was being identified.

Gordon Smail: That was when the decision was being made about how the system would be implemented. As we say in exhibit 3, the option to develop an in-house system was rejected at the end of April, so the delay was the period between January and April when discussions were on-going about how best to deliver.

Colin Beattie: So it took three months to decide which way to go.

Gordon Smail: That is my understanding, and that is what our report says.

Colin Beattie: Does that seem unreasonable?

Gordon Smail: It is difficult to know. We can go only on the basis of the available evidence. I presume that discussions were on-going. In the paperwork, which is the evidence base that we

have on the issue, we have seen evidence of the various boards and teams in the Scottish Government and Revenue Scotland looking at the options over that period. Those were big decisions to make. You would have to speak to the next panel about what happened in that period.

09:45

Colin Beattie: To a layman who has been involved in IT systems, it does not seem too out of order to take three months to make such a decision.

Paragraph 23 on page 12 of the report talks about jobs—40 posts in total. It says that phase 2, which involves 20 posts, is on schedule as per the original estimate. Is that correct?

Caroline Gardner: For phase 2, we are saying that the confirmation of job descriptions and grades happened a little later than planned—originally, it was planned for September but it was completed in mid-October. The staff were due to be in post by February of next year, and clearly we do not know whether they will be in post by that date.

Colin Beattie: There was no reason to think that they would not be—otherwise you would not have said, “as originally estimated”.

Caroline Gardner: That is the estimate, but we were working with the audit evidence that was available to us at that point. We have not drawn a conclusion about it other than to note that the confirmation of job descriptions was a bit later than originally planned.

Colin Beattie: But there were no indications at that point that those 20 posts were necessarily going to be outside the estimate given.

Caroline Gardner: There was no indication that they would be outside the estimate, but there was no confirmation that they would be inside the estimate, given the concerns that there can be in relation to recruiting to specialist posts of this nature. All I can do, Mr Beattie, is refer you to the evidence that we have used in the report.

Colin Beattie: It sounds a bit like a case of, “Damned if you do, damned if you don’t.”

Caroline Gardner: One valuable thing that we can do for the Parliament is provide assurance about the process of these big and complex programmes and highlight where the risks remain. That is a remaining risk, which needs to be managed. That is all we are saying.

Colin Beattie: On the staffing side, the First Minister gave a clear response at First Minister's questions last Thursday about the posts and about the stage that recruitment was at for the posts. There seems to be every reassurance that

recruitment is going to be on schedule, so when will you look at all this again?

Caroline Gardner: We will keep the project under review routinely as part of our audit of the Scottish Government, and we will keep in touch with colleagues in the Government and in Revenue Scotland who are responsible for it. We are not planning to keep going in and checking on progress when we all hope that the focus will be on getting the IT system up and running and getting people in place. We are reassured by the evident commitment to taking the plans that are now in place and delivering them effectively for 1 April. What we are doing at this stage is providing evidence to Parliament about the progress that has been made.

Colin Beattie: Again, this is just a small point. On page 16 of the report, in paragraph 41, you refer to recruitment and

“Revenue Scotland’s difficulties in recruiting to their operational team”.

That is slightly different from saying that Revenue Scotland was delayed in recruiting its team. You are saying that it had difficulties. Where does that come from?

Caroline Gardner: I will ask Gordon Smail and Mark Taylor to talk you through the background to that, given the sensitivity.

Gordon Smail: What we are trying to say relates to the track record that there has been so far. There were delays in coming to a decision about the number of staff. I think that there are good reasons for that—I do not want to understate that. There is an important job to do and, with the gift of a better understanding of what is needed in terms of staffing, a decision has been made.

All we are saying in the report is that, based on the evidence that we have available to us, some of the timescales have slipped. As we have said a few times this morning, our concerns—the risks that we have flagged—are to do with the period of time between when these important decisions are made and actions are taken and when the taxes are due to start and be collected from 1 April. That is where we are coming from.

Your specific point was about the word “difficulties”. The issue is the extent to which staff have been brought through the door in accordance with the revised timescales. It is reasonable for us, in a report that reflects on the risks that we see at that point in time, to use the language that is in the report.

Colin Beattie: On page 25, in paragraph 69, there is reference to work involving Audit Scotland and the National Audit Office. You say:

“We will report annually on this assurance work.”

No indication is given of what your cost will be, on top of the NAO cost.

Caroline Gardner: We have given evidence to the committee on this previously. The real challenge with the Scottish rate of income tax and potentially with further devolved taxes under the Smith commission is that they will continue to be collected by HMRC and assigned to the Scottish Parliament. HMRC is a UK-wide body that, under statute, is audited by the NAO and will continue to be so. There is no question about that. The NAO already does that work very effectively and it reports to the UK Parliament on it.

The Scottish taxes that HMRC collects on behalf of the Scottish Parliament will be only a small part of the NAO’s audit responsibilities because they are a relatively small amount of the overall tax that HMRC collects. We are working on the basis that, in order to give the Scottish Parliament the assurance that it needs about the taxes that are collected and the resource that is available to the Parliament for its purposes, we will carry out some work to review the work that is planned by the NAO and its findings. We will then report to this Parliament, if we think that that is appropriate, to highlight any issues that are significant in the context of the Scottish budget but insignificant in the context of HMRC’s tax collection overall.

At this stage, we do not expect that to have significant additional costs. We have flagged previously, in our budget submissions, that at this stage we are making no provision for new responsibilities that we may take on as a result of either the Scottish rate of income tax or, more significantly, the proposals that are coming out from the Smith commission. We may well need to do that as those proposals develop, as other public bodies will.

Colin Beattie: I suppose that the good news to note on costs is that the overall cost of implementing the SRIT is coming in below budget, at £35 million to £40 million instead of £40 million to £45 million.

Caroline Gardner: Absolutely, and we recognise in the report that the Scottish Government is working closely with HMRC to bring that about.

The Convener: I ask Sandra White to bear with me. I will bring her in after Nigel Don.

Nigel Don (Angus North and Mearns) (SNP): Thank you, convener. I have to go to another committee in about five minutes to discuss a constituency issue.

Good morning, Auditor General. If I may, I will pick up on the point about risk. I understand from running a few small projects in my time that there is always a risk, and I reflect that, whether the risk

that something will go wrong is 50:50 or 0.5 per cent, we would still describe it as a risk. There is also a risk—in the other sense—that the rest of the world will believe that the world is about to fall down. The risk is actually minute, but you would still describe it as a risk.

Caroline Gardner: You are absolutely right. Any project of this scale brings risks with it, and we try hard to recognise that in the report. What we are saying, after careful consideration, is that because of the delays that have been experienced against the Scottish Government's own plans, the risk has increased from where it would have been previously. That is not to say that it cannot be recovered. We are very aware of the scale of the effort that is going on to ensure that the arrangements are in place, as they need to be, on 1 April, but the risk is increased from the state of play earlier in the process because of the delays that have been experienced.

Nigel Don: May I then try to put that in the context of what I would describe from previous experience as the critical path? I am sure that that is a familiar term to you.

I am looking again at page 14 and exhibit 3, and I am thinking that, if the Scottish Government's plans had put everything two months later, you would have had nothing to say other than that the project was on plan. I am not suggesting that the Scottish Government should have put things two months later, but I am reflecting that if the project could still have got to the end point—in other words, if the critical path allowed those points to be two months later—we would not be here talking about this, because it would appear that everything was on target.

My question then becomes: where is the critical path in this project? Are those milestones now in the right place, or are we actually past them?

Caroline Gardner: It is a very good question, and we have tried to answer it in the way we have worded the report, which has taken a good deal of care, as you can imagine. We say that we think that the detailed plans that are now in place could have been developed earlier and that, if they had been developed earlier, there would have been a lower risk of the milestones being missed. That is not to say that they would not have been missed or indeed that the plans may not have recognised that the critical path came later.

The central point is that that detailed planning did not happen early enough, and therefore we are now in a position where the investment that is needed to hit the end point of 1 April—it is a fixed and important end point—is more significant than it might otherwise have been.

Nigel Don: Thank you—and thank you, convener. I must go now.

Sandra White: Both the Auditor General and the convener have said that it is a large and complex issue—we should not pretend otherwise. With the Smith commission, the situation is also a moveable feast. Indeed, Mr Taylor has mentioned the additional tax powers that are to come.

In your opening statement, you said that the audit took place while implementation was taking place. Is it normal for Audit Scotland to carry out a review when change is under way? Indeed, the audit took place when the Smith commission was under way. How difficult is it to audit a moveable feast when things are changing all the time and new legislation is coming forward?

Caroline Gardner: We carry out such audits frequently. My strong view is that, for large and complex projects such as this one, it is entirely appropriate to use our powers to provide assurance to the Parliament about progress rather than to wait for the end point and then report what went wrong, if that is the case—it clearly does not always happen that way.

Over the past few years, we have reported on, for example, key points in the development of the Commonwealth games, major transport infrastructure such as the second Forth road crossing, and a number of other large projects that involved lots of money and had significant implications for public services. I hold to the belief that that is an important part of our role on behalf of Parliament.

You are right to say that such audits bring additional challenges, not least because the fact that we are auditing tends to change things. People recognise what we are doing—we often highlight matters that had not been noticed or provide extra impetus to people to say, "We need more resource to get this delivered on time." We work hard to mitigate the risks and to maintain good engagement with the people who we are auditing.

Such audits are more challenging, but I think that they are an important part of our role on behalf of Parliament.

Sandra White: My point was about the accuracy of your audit. You mentioned the Commonwealth games. That came in below budget, so we saved money. How accurate is an audit of an issue that is on-going? The evidence from the Commonwealth games is that the games saved money and things worked fantastically.

Caroline Gardner: The Commonwealth games is a great example of how such auditing can work. Our prior reports on the games highlighted that progress was in line with the milestones; they also highlighted a couple of areas, particularly security, where more investment may have been needed to

deliver what was required. In early 2015, we will publish a final report that will show exactly that.

Although I would not say that we are always able to forecast the future with absolute 20:20 vision—no one can do that—we have a pretty good track record of saying, “This is what’s happening entirely satisfactorily, this is what’s a real problem, and here’s where the risks lie.” We have tried to do that in a balanced way in the report.

Sandra White: Thank you very much. Although that does not necessarily prove my point, it shows how difficult it is to be accurate.

You mentioned the factual accuracy of the report that we have before us; you also mentioned the conclusions that you have drawn from them. Various members have asked whether the involved parties, including Government, had seen the report and raised any issues, but that was in relation to the report’s factual accuracy. The conclusions that you have drawn from those facts is an entirely different issue.

Caroline Gardner: I have phrased my findings in the report and in discussion with the committee today to reflect the fact that I think that there is an increased risk because of the delays that have been experienced in staffing and IT systems. That is not in any sense a red flag or a warning that they will not be in place; I am reporting to you my professional judgment based on the evidence that my colleagues have collected and analysed that the risk is greater. I have also acknowledged the significant work that is going on to overcome the delays and get to where we all want to be on 1 April 2015.

Sandra White: I absolutely take that on board, but I return to the fact that you cannot see into the future. Throughout the report, you refer to many things that “may” happen—you do not say that they will definitely happen.

I welcome the report and I think that it is right that you should highlight the issues that you draw in your conclusions, but not necessarily in the final report as we have here. For example, you mention the IT system in the report, but Mr Taylor said that having a centralised IT system is probably the right way to go in the long term, to save money and to have more transparency not only for the Parliament but for the people of Scotland as well.

Caroline Gardner: I want to be clear that there are areas where we conclude that there is increased risk and that there may be cost and performance implications. Equally, we have also found that there have already been delays in a number of significant areas that have led to that increased risk. Therefore, the report is not speculative—it draws conclusions on the evidence available to us, which has been agreed for factual

accuracy with colleagues in Government and Revenue Scotland.

10:00

Sandra White: There is factual accuracy, but it seems that the Government has not agreed with the conclusions—although perhaps it will do so when we ask it for evidence. I bring you back to the fact that you used the phrase “may be”. We must keep that point in mind, as you used that phrase earlier and it is in the report.

Caroline Gardner: I am happy to confirm that I have concluded that there is an increased risk, which clearly has a forward-looking dimension. However, my conclusion is based on the delays that have happened in the past, so there is an important balance to strike between the evidence that we are working with and the conclusions that I have drawn. I do not think that we are disagreeing; it is the balance between the two that is important.

The Convener: I will ask three short questions before I invite the next panel to give evidence.

Is it possible in public sector contracts to show that you come in under budget by overstating the original estimate?

Caroline Gardner: I think that it is possible to do that in any contract. However, I do not want to speculate about any particular circumstances that you may be referring to.

The Convener: Okay. Have you been notified of any intention to use the contingency?

Caroline Gardner: At this stage, we understand that the contingency plans are being developed but that Revenue Scotland and the Scottish Government hope to make enough progress between now and the end of the year for them not to be required.

The Convener: My third question relates to a strange comment in paragraph 41, which is on page 16 of the report. Can you provide some clarification? The paragraph states:

“The Scottish Government’s current assessment is that while it currently has enough skilled people in place to fulfil its responsibilities, it is dependent on a single member of staff and consequently there is a need to consider resilience as April 2016 approaches.”

Does that mean that the absence of one person could have brought the project crashing?

Caroline Gardner: The comment is in relation to the development of the Scottish rate of income tax for April 2016 rather than the two new devolved taxes that will operate from 1 April 2015. Does Gordon Smail want to amplify the comment that we make in the report?

Gordon Smail: It is just an observation that we made, and it is obviously part of a point that is important in the longer term. It is linked to the issue of having the necessary capacity for delivery. That part of the report is taking a longer-term view. We are very much focusing on the devolved taxes.

The Convener: I understand that, but does the comment mean that the plans for the Scottish rate of income tax are dependent on one person?

Caroline Gardner: Not quite. Mark Taylor can give you a bit more detail on the background.

Mark Taylor: We make the point that that is the right sort of capacity to deal with the current workload. The two other points that we make in the report are that the workload is bound to grow in the future, so the situation needs to be kept under review, and that there is also a resilience issue, because of the dependence on that one person who has the skills. The organisation needs to understand how it backfills that post if that person is not around.

Gil Paterson (Clydebank and Milngavie) (SNP): I did not intend to say anything, but the Auditor General raises a question from a business perspective. In her answer, she said that there is a possibility that folk would overtender and that it would be agreed by the Government.

Caroline Gardner: No. I am sorry if that is the impression that I gave, but that is not what I intended to say.

Gil Paterson: I think that the question was whether it was possible to overestimate the budget.

Caroline Gardner: The way that I interpreted the question was whether it would be possible to set a budget that—

The Convener: I was not talking about the tendering process.

Gil Paterson: Is that not related to the tendering process?

The Convener: No. What I was—

Gil Paterson: Can I ask my question?

The Convener: I would like to clarify my question. I hope that I did not mislead the Auditor General.

Gil Paterson: You misled me.

The Convener: The question that I was asking was whether, in indicating potential costs for projects, it is possible to show that projects come in under budget by overstating the potential cost. It is clear that I am not talking about the tendering process.

Caroline Gardner: That is how I interpreted the question, convener.

Gil Paterson: Can I come back in, again from a business perspective?

The Convener: Certainly.

Gil Paterson: Is it possible for what the convener describes to happen because of the tender process that is involved?

Caroline Gardner: No—if the tender process works properly. The tender process should be a competition that produces a true cost.

Gil Paterson: In other words, when it comes to public sector contracts, what happens is that a tender is made and we get cost savings because of the efficiency with which the work is carried out.

Caroline Gardner: This is clearly a theoretical discussion.

Gil Paterson: Not for me—not in business. I do it all the time.

Caroline Gardner: I understand that entirely, Mr Paterson, but I am trying to avoid the implication that I am talking about any particular project or contract.

There is clearly scope for an awful lot of movement between setting a budget for a big project or programme and the final costs coming in. If there is true competition for a contract as part of that budget, that ought to drive out any overstatement in that part of the budget. There might be many other things that happen between the initial budget and the final estimate that would also have an impact.

The Convener: Auditor General, I thank you and your team for your contribution.

I will briefly suspend the meeting to allow our witnesses to change over.

10:05

Meeting suspended.

10:07

On resuming—

The Convener: On our next panel, we have: Alyson Stafford, director general of finance, Scottish Government; Eleanor Emberson, head of revenue, Revenue Scotland; John King, business development director, Registers of Scotland; and John Kenny, head of operations, SEPA.

I believe that Alyson Stafford would like to make an opening statement.

Alyson Stafford (Scottish Government): We are pleased to be here to help the committee with its examination of the considerable work that has been done and is in train to implement the Scotland Act 2012.

Revenue Scotland, which was established by the Revenue Scotland and Tax Powers Act 2014, has an important part to play in the implementation of the 2012 act. In January 2015, it will become a separate body in the Scottish Administration, and, like bodies such as the Scottish Court Service and Registers of Scotland, it will be operationally independent of the Scottish ministers and will be directly accountable to the Scottish Parliament. Revenue Scotland will be ready to administer both the assessment and collection of the devolved taxes from April 2015 and the subsequent compliance regime.

The effective collection of devolved taxes in Scotland relies on the creation of the right conditions, which includes a principle-based approach to taxation, where the spirit as well as the letter of the law must be upheld by taxpayers and their agents. In June 2012, the cabinet secretary set out his approach, which is based on Adam Smith's four maxims. Those have underpinned all the work to establish the devolved taxes in Scotland.

A further condition is, obviously, the programme of robust legislation, which commands a high degree of consensus. For example, the Revenue Scotland and Tax Powers Act 2014 received unanimous approval at each stage from the Finance Committee and the whole Parliament.

Another condition is active engagement with the appropriate stakeholder communities. For the two devolved taxes, agents of land and buildings transaction tax payers, landfill site operators and a range of professional bodies will continue to participate to inform policy formulation and guide operational implementation. That will mean that operational processes will be user friendly. At the heart of that activity in Scotland are the tax consultation forum and the devolved tax collaborative, which are accessible, broad-based, issue-specific working groups that are unique to the Scottish approach.

The final key condition is good governance of the tax administration processes. The tax administration programme and Revenue Scotland have been established to deliver those processes—and they will.

We are now seeing the final stages of the journey that began in June 2012 when the cabinet secretary announced in Parliament his decision to establish a tax authority for Scotland.

In the words of the Auditor General,

“there are now well-developed project plans for implementing the devolved taxes.”

Using those plans, Revenue Scotland has provided online tax calculators so that people can work out the tax that is due based on the proposed rates and bands. It has launched its website and developed a core information technology system to process tax returns and the associated case management—the system is currently subject to internal testing. It has also finalised payment systems and banking arrangements. It is currently consulting users on the drafting of technical guidance for taxpayers for both the devolved taxes. It has a fully staffed programme team so that it can continue programme delivery, and it is recruiting staff for operational delivery as and when they are needed.

Positive actions are being delivered thick and fast. My colleagues and I are well placed to help the committee with its exploration of the opportunities and risks, and to set out the robust actions that are in place to manage and mitigate them. All of us and our teams are highly motivated and committed to delivering the effective collection and administration of taxation from 1 April next year.

I will introduce my colleagues. Eleanor Emberson has been head of Revenue Scotland since October 2012, and is the chair of the tax administration programme board. She is the former chief executive of the Scottish Court Service. John King is business development director at Registers of Scotland and lead for ROS on the tax administration programme board. He has been with ROS for 30 years. John Kenny is head of national operations at SEPA and is the lead for SEPA on the tax administration programme board. He has been with SEPA since its inception 18 years ago.

As you know, I am the director general of finance at the Scottish Government. I chair the fiscal responsibility programme board, and I am happy to cover the other aspects of the implementation of the Scotland Act 2012 that sit outside the scope of Revenue Scotland.

The Convener: Thank you. I will start with two questions. A very complicated finance system is being set up, and we all depend on that being done effectively and efficiently. You have highlighted the range of experience among the people who are involved, in particular the experience that you and Eleanor Emberson have gained at the Scottish Government and Revenue Scotland respectively. Can you tell me what accounting qualifications and revenue experience you have?

Alyson Stafford: I am a qualified chartered accountant and am recognised as a Chartered

Institute of Public Finance and Accountancy accountant, which covers the private and public sector. My qualification includes taxation. That covers the particular span of your question.

Eleanor Emberson (Revenue Scotland): I do not have an accounting qualification. I have taken two of the exams for the tax professional qualification that the Institute of Chartered Accountants of Scotland has introduced, and I passed both of them. I have gone out of my way to hire from HMRC people who have expertise in tax, and I have considerable expertise in running programmes and in running a public body.

The Convener: Okay—thank you.

I do not know whether Alyson Stafford or Eleanor Emberson should answer my next question.

Paragraph 30 of the report, which is on delays to the IT system, says that

“the option to develop the IT system fully within the Scottish Government”

was explored, but that it

“was rejected at the end of April 2014, as the Scottish Government did not have the staff or expertise available to develop the system within the timescales, due to other commitments.”

Did the other commitments include preparations for the referendum?

10:15

Eleanor Emberson: I am afraid that I did not explore the range of other commitments that the Scottish Government IT team was facing, but they included the Commonwealth games, the Ryder cup and—as has already been noted by the Auditor General—at least one other major IT project that was already under way. When we took that decision, the point was about taking the lowest risk option.

The Convener: Who would be able to tell me what the other commitments were?

Eleanor Emberson: I presume that my colleagues who line manage the IT team would know.

The Convener: Which department would that rest with? Would it be the Scottish Government or Revenue Scotland?

Eleanor Emberson: It would be within the Scottish Government.

The Convener: Would it rest with Alyson Stafford?

Alyson Stafford: The director of digital would be the best person to ask.

The Convener: Right. Perhaps you could find out for me what those other commitments were and whether they included the referendum.

Alyson Stafford: Yes, we can come back to the committee on that.

The Convener: Thank you.

On 26 November, Eleanor Emberson told a parliamentary committee that

“there is nothing negative that I need to report.”—[*Official Report, Finance Committee*, 26 November 2014; c 29.]

However, we have heard a number of warnings from Audit Scotland, which were repeated in the press release that it issued on 11 December 2014, that the delays

“have increased the risk that the IT system may not be fully functioning by 1 April 2015 and that Revenue Scotland won’t have the required operational expertise in place by then.”

Do you not think that that is a negative?

Eleanor Emberson: I have two points to make on that. I reported fully to the Finance Committee that we had a number of areas at amber that we were managing back to green. That is a reflection of managing risk, because that is what one does in project management.

I used the specific words “nothing negative” in response to a question from Gavin Brown. He noted that my written report to the Finance Committee had been submitted in mid-October, as had been agreed, but, because of other committee business, the committee had not been able to see me until the end of November. He said that there had been “a slight time gap” and asked whether I could tell the committee if anything material had changed between my written report in mid-October and my appearance before the committee at the end of November. To that, I responded:

“There has been a lot of progress but there is nothing negative that I need to report.”

The Convener: You said:

“We are still on track on all the areas.”—[*Official Report, Finance Committee*, 26 November 2014; c 29.]

However, the Audit Scotland press release indicates that

“the IT system may not be fully functioning by 1 April 2015”.

Which is correct: Audit Scotland’s comment, or your statement that Revenue Scotland is still on track in all areas?

Eleanor Emberson: We are on track in all areas.

The Convener: Are you saying that the Audit Scotland report is wrong?

Eleanor Emberson: I am not saying that.

The Convener: It is either right or wrong. If you are not saying that the report is right, are you saying that it is wrong?

Eleanor Emberson: Managing programmes and managing projects is about managing risk. We are on track because we are managing the risks that Audit Scotland has highlighted. There is no contradiction in those two statements.

The Convener: Is there not? You are on target, but the system

“may not be fully functioning by 1 April 2015”.

How is there no contradiction in that?

Eleanor Emberson: The Auditor General has just highlighted that there is a risk but, as has been discussed with the committee, there are always risks. We manage risks, and we are confident that we have managed this one. Life has moved on a long way since the Auditor General's staff did their fieldwork. We have an IT system that is currently in testing. I have seen it, and it is being tested internally at the moment. We will bring in external users to test it in January. That is how I can be confident that we are on track.

The Convener: Okay. When you were given the draft report, did you challenge the statement that

“the IT system may not be fully functioning by 1 April 2015”?

Eleanor Emberson: I challenged a number of statements in the report.

The Convener: Did you challenge that one?

Eleanor Emberson: I challenged the perception of risk.

The Convener: Did you tell Audit Scotland that that statement was wrong because you are “still on track”?

Eleanor Emberson: Audit Scotland's response to me, when I discussed all this with it, was that it still saw a risk and felt that it had to be highlighted.

I am managing the risk and I see that we are on track. Audit Scotland notes that there is a risk; I think that I am managing it. Audit Scotland has to draw its own conclusions from the evidence in front of it.

The Convener: The report also says:

“There is a risk that Revenue Scotland will not fill all of its operational posts in line with its plans”.

Is that wrong as well?

Eleanor Emberson: Again, the risk that Audit Scotland perceived has reduced dramatically. The First Minister gave an update in the chamber last week but even since then life has moved on. Audit Scotland noted that we had recruited 10 of the operational staff. As of today, the figure is 21, and

eight more posts are in the recruitment process: three of them have interviews scheduled, and five more are not quite at that stage.

The Convener: Will you fill all your operational posts in line with your plans?

Eleanor Emberson: We will have all the operational staff that we need by April, yes.

The Convener: Okay. Were ministers alerted to the warning that not enough staff were in place?

Eleanor Emberson: Do you mean the programme staff?

The Convener: I mean any staff.

Eleanor Emberson: It is important to distinguish between the programme staff, who have worked on set-up, and the operational staff, who will manage live running.

The Convener: Okay. Tell me about both.

Eleanor Emberson: On programme staffing, Audit Scotland has concluded that the staff that it considers were required were not in place. I do not accept the word “required”. If it was possible to have the time over again, I would seek to have more set-up staff in earlier. However, I do not believe that that was necessary or would have materially changed where we are right now.

The Convener: Why would you have done it differently if it was not necessary?

Eleanor Emberson: It would have been helpful. As the Auditor General has pointed out, when you work through a programme such as this one, you iterate planning. When you start, you have a very high-level plan, particularly in a programme that works alongside legislation, as this one does. The level of detail in programme planning matches the development of the policy and the legislation, so there cannot be completely detailed plans for implementation until what is going to be implemented is understood exactly. Therefore, it would have been unhelpful to have 40 staff in place two years ago. We have the right level of staffing now. If I could go back and do it again, I might have built the team up two months earlier than I did, but I say that with the benefit of hindsight.

The Convener: At various times, posts were not filled. Did ministers agree at any time that staff should not be recruited?

Eleanor Emberson: I did not go to ministers at any point during the recruitment of set-up staff.

The Convener: Costs have risen by £2 million.

Eleanor Emberson: The figure is £1.7 million.

The Convener: Well, nearly £2 million. Is that the end of the rises? Is that the final figure?

Eleanor Emberson: I believe so.

The Convener: You will be able to report that.

Eleanor Emberson: That is my current best estimate.

Colin Beattie: Just to be absolutely clear, you are telling us that IT systems and staff recruitment are on track.

Eleanor Emberson: Absolutely.

Colin Beattie: We will not get any surprises on 1 April.

Eleanor Emberson: I am not in control of whether there will be any surprises, but I am confident that we will have a full IT system and the operational staff required to run the organisation.

Colin Beattie: The summary of the Audit Scotland report contained three recommendations for Revenue Scotland and one for the Scottish Government. Have those been implemented?

Eleanor Emberson: Indeed. They are all things that we are doing anyway, but we recognise that they need to be done and we are doing them.

Colin Beattie: On contingency planning, Audit Scotland was of the opinion that, back in October, contingency plans were being developed. Are contingency plans now in place to cover key eventualities?

Eleanor Emberson: Yes. We now have a full contingency plan. We are finalising the details but we have a full plan.

Colin Beattie: So there is a back-up if there is an unforeseen problem with the IT system.

Eleanor Emberson: As you would expect, yes.

Colin Beattie: Paragraph 41 of the report refers to difficulties with recruiting operational staff. Have there been any difficulties, or is it just about timing?

Eleanor Emberson: On operational staff, you have to understand that we deliberately changed our plans around recruitment. As we considered the issue in more detail, we realised that we did not need people as early as we had originally thought. We have not had any difficulties so far. It appears that people want to come and work for us.

Colin Beattie: You modified the original schedule for taking staff on board in light of experience, to reflect the fact that you did not need the staff at that particular point.

Eleanor Emberson: Yes, and to reflect the need to secure value for money, as this committee would expect me to do.

Colin Beattie: On the decision to move to a central IT system, reference is made in paragraph

30 of the report to a four-month delay—between January and April—in making that decision. Is that an unusually long period for such a decision to take?

Eleanor Emberson: That was the period in which we were considering the in-house option. We had to work it through in a lot of detail with our colleagues in the Scottish Government IT division. It is not a decision that one takes on the basis of a casual conversation; there needs to be a full understanding of requirements on both sides. I do not think that it was an unreasonable amount of time to spend considering that option.

Colin Beattie: If Audit Scotland did its report again tomorrow, do you think that it would come up with the same result?

Eleanor Emberson: I would be surprised if it did. For example, it would now see a demonstration of the IT system and would be able to meet the operational staff, so things would look materially different from the position in October, when a lot of the field work was being done.

Mary Scanlon: In paragraph 1 of the report, the Auditor General says that there is an increased risk that the IT system will fail. Is the contingency plan for Registers of Scotland, for example, to use pen and paper to deal manually with between 450 and 600 transactions every day?

Eleanor Emberson: It would involve solicitors sending in manually produced paper tax returns; we will offer that option anyway, even when the IT system is live.

Mary Scanlon: So the contingency plan is pen and paper.

Eleanor Emberson: Yes, for solicitors to send in their plans. However, we will process those submissions behind the scenes.

Mary Scanlon: There are between 400 and 650 transactions a day at Registers of Scotland and something like 40 at SEPA. Is the contingency plan to use pen and paper for all those transactions?

Eleanor Emberson: The contingency plan is for everyone who would be submitting a land and buildings transaction tax return to submit a paper return.

Mary Scanlon: So it is pen and paper. Thank you.

We are constrained by time this morning, but I would like to ask Alyson Stafford a question about two papers that we have from her predecessor, Paul Gray. In October 2012, he gave this committee a categorical assurance that everything was totally on course for the land and buildings transaction tax. I have it all written down before me. What happened between October 2012 and

October and November 2014, which is when the Auditor General and her staff collected the information about your progress and highlighted to this Parliament that there was an increased risk that Scotland would not be able to collect the taxes on 1 April?

Alyson Stafford: On the issue of whether I have had a predecessor, I have been in the post of director general since 2010 and have been the principal financial adviser to the Government since—

Mary Scanlon: Paul Gray responded to Audit Scotland's report on managing ICT contracts. He was the person in charge at that time.

Alyson Stafford: Yes. The ICT digital leadership sits with other parts of the Government. It is not something that comes under my direct responsibility as director general for finance.

You are asking about how this programme is going.

Mary Scanlon: I am asking about what happened between the categorical assurance of success and the notification of increased risk.

Alyson Stafford: As Eleanor Emberson has already said, there are risks in any project and programme. The elements and actions that are now in place are to manage those risks actively, between now and the end of April.

Mary Scanlon: You have had over two years to manage the risk. Two years and two months later, the Auditor General says that there is an increased risk. Two years and two months ago, you were categorically confident that you were on course to collect the tax. In December 2014, you have an increased risk. I am asking what has happened in between.

10:30

Alyson Stafford: To be fair, I would need to check the record of what Paul Gray said at the time.

Mary Scanlon: I have it here. I am happy to pass it on, although I would need to photocopy it, because I like to refer to it.

Alyson Stafford: That is fine—I understand about your pile of paper.

In this particular programme of activity, a series of actions has taken place. That has included putting legislation in place. A number of the actions in relation to legislation were running during the timeframe to which you refer. For example, the processes for the Land and Buildings Transaction Tax (Scotland) Bill, the Landfill Tax (Scotland) Bill and the Revenue Scotland and Tax Powers Bill all took place. In terms of the—

Mary Scanlon: So legislation led to the delay.

Alyson Stafford: No, it has not led to the delay. It has been an integral part of having the right conditions so that Revenue Scotland can specify an IT element within the programme of delivery. Work on the specification started more than a year ago. That involved working with business analysts to specify what was required and discussions about whether it was appropriate to have an in-house system or an externally supplied activity. Eleanor Emberson can say more about that.

The contract has been agreed with a supplier that is involved in a framework agreement, so there is knowledge and experience of working with the supplier and it has credibility and a track record with the Scottish Government. Since the contract was established, the supplier has been delivering on time and on budget. That is why Eleanor Emberson can say that, although there are risks that have to be managed, there is confidence in the actions that are being taken and in the collaboration that is happening across Revenue Scotland, Registers of Scotland and SEPA and with the suppliers and all the various experts that have been involved to enable the taxes to be collected from 1 April next year.

Mary Scanlon: As a member of the committee, I do not like being given assurances that I accept and then being told of increased risks. However, we will move on.

According to the finance secretary, John Swinney, by setting up Revenue Scotland,

"we will serve the needs of the people of Scotland at a lower cost than the UK set-up".—[*Official Report*, 7 June 2013; c 9906.]

Well done. The original cost of setting up Revenue Scotland was to be £22 million, and the finance secretary said that he was bringing it in at a price that was 25 per cent lower than if the UK had done it. The figure is now less than 5 per cent lower, so what has happened? Why have the costs increased so much for the setting up of Revenue Scotland? Why did the finance secretary give a commitment, which would have been discussed with you, that the cost would be £22 million and 25 per cent less than if the UK had done it? It is now less than 5 per cent lower. What happened there?

Eleanor Emberson: There are two elements to that, one of which was reported fully to Parliament with the financial memorandum to the Revenue Scotland and Tax Powers Bill. To use the language of project management, there are changes to scope and there are changes to estimates.

The changes to scope are the bits that were reported fully in the financial memorandum to the Revenue Scotland and Tax Powers Bill a year ago. Revenue Scotland is now investing in

developing one central IT system. We are putting additional resources into compliance for Revenue Scotland and SEPA, to ensure that we can use the legislation that Parliament has given us, which for instance includes provision on taxing illegal dumping and wider compliance powers for Revenue Scotland. Those were deliberate changes to meet the requirements of the taxes that have now been put in place by the Parliament.

The remaining £1.7 million relates to changes in estimates. My original estimates of set-up costs have turned out to be not as accurate as I would have wished, and our costs have gone up.

Mary Scanlon: I appreciate that this must be very embarrassing for you and for the finance secretary, who made a promise on the information that he had that the cost would be 25 per cent lower. Given what we have heard today—that there is an increased risk that we will not be ready to collect the taxes and that we may have to resort to quill and ink and all sorts of things—and given the huge problems that you have had over the years, have you considered going back to the Westminster Government to ask whether it would delay implementation of the taxes to help you get your house in order?

Eleanor Emberson: We are absolutely on track. There is no need for any delay.

Mary Scanlon: Okay. We have heard that before. I have a final question. You mentioned the canons of taxation, and being an old economist I know about Adam Smith's canons of taxation. I think that I am right in saying that Registers of Scotland is a self-financing agency. Is that correct?

John King (Registers of Scotland): That is correct.

Mary Scanlon: I have lost count of the millions and millions of pounds that have been spent on IT. The last time that you were here, you said that the cost had increased from £67 million to £113 million, but that was a couple of years ago. One of Adam Smith's canons of taxation is that if the cost to collect a tax is more than the revenue that is gained from the tax, that is a tax that you do not collect—an example is the dog licence. Given that it is costing you so much to collect the LBTT, and given the difficulties that you have faced and the assurances that we have had, will you now have to increase the cost of stamp duty to home owners across Scotland?

If I may, I say to Caroline Gardner that even her predecessor, Bob Black, brought concerns to us about the long history of IT problems in Registers of Scotland. Given the problems that you have had and the huge increase in costs, will home buyers and businesses have to pay more in stamp duty in order that you can continue to be self-financing?

John King: I will pass your general point over to Eleanor Emberson or Alyson Stafford. However, we are not building the collection system; Revenue Scotland is doing that. We have a role to play in supporting that, but it is a very limited role.

We have to deliver an authentication server, and that is already there. We delivered that as part of the delivery of four new IT systems, which we introduced to support the Scottish Parliament's Land Registration etc (Scotland) Act 2012. That is our main contribution towards the IT and it will help the IT provider because it is something that they do not have to build. It also offers value for money because there is no duplication of costs.

Eleanor Emberson: There are two things that I should say. First, Registers of Scotland will not be self-financing around the work that it does on tax; it will be paid by Revenue Scotland for the work that it does, and that will be transparent to the Parliament. Secondly, we are looking at annual operating costs for Revenue Scotland, ROS and SEPA for the taxes of the order of £3.5 million, against estimates of £550 million or more for the tax revenue that is likely to be collected, so I think that we are a long way from the point at which you might have to worry about whether it is efficient to collect the taxes.

Mary Scanlon: We have heard that before. Have you revised your estimates of payments to ROS?

Eleanor Emberson: I have not.

Mary Scanlon: You are quite content with the cost of the IT systems and the difficulties that ROS has had in getting to this place.

Eleanor Emberson: ROS is not developing the IT system; Revenue Scotland is developing it.

Mary Scanlon: Right—with your rising costs.

The Convener: Okay. Colin Keir is next.

Colin Keir: Thank you, convener, and good morning. I think that there is sometimes some paranoia in our committee that results from periodic discussions about other IT systems that have gone pear-shaped. I suspect that the HMRC £3 billion mess-up dwarves most things. In fact, having looked at exhibit 3 in the Auditor General's report, I believe that if you can get from the beginning to the end in the manner that you are talking about you will probably have the most successful IT set-up that we have seen in many years in public services. If that happens, I will be the first to commend you.

As I said earlier, one of the things that had impressed me—although perhaps not others—particularly given HMRC's record of wastage, with £3 billion lost, was the fact that you identified relatively early that it was better to have the IT

project as an external project, rather than an in-house development. That is where the delays as identified in this report at this time came through.

Why did you come to that decision? Will you give me a clearer idea of the questions that you were asking at that time to allow you to make that evaluation?

Eleanor Emberson: Are you asking about the evaluation that led us to decide to use an external contractor?

Colin Keir: Yes.

Eleanor Emberson: We worked fully through our requirements with the Scottish Government IT team, so that they understood them. We had been doing the very detailed business analysis work to specify requirements from the summer of 2013, when we were working alongside colleagues on the finalisation of the Revenue Scotland and Tax Powers Bill. We had done a lot of work on that. We then worked with the Scottish Government IT team to make sure that they understood that fully and that we understood whether they were in the best position to take on the work. It was, in the end, a mutual decision that it was better for them to take a role supporting us through procurement and working with an external contractor than to take on this work directly, for reasons of capacity and the other demands on them. The capacity constraint is about making sure that if anything requires us to scale up effort at any point during the programme, there are enough people not just to do the work but to respond to anything that might come up in the course of the work.

Colin Keir: So it was all done for the best of reasons of cost-effectiveness.

Eleanor Emberson: And reducing risk.

Colin Keir: Of course. That takes us to the point that it is better to be risk aware than risk averse, or whatever.

On the timeline from when the Auditor General set the report and when it had to be published, so much information has come out recently, such as what the First Minister said last Thursday. We are looking at a different scenario now than we were previously. There is absolutely nothing wrong with the Auditor General's report—it was of a time—but we have to be aware that a lot of the risks that are mentioned in the report are being dealt with. As you say, things have moved on quickly, even from what the First Minister said last week.

Eleanor Emberson: Indeed. The position on risk now is considerably different from the position when the Auditor General's staff were doing the work. I would say that the risks are considerably lower at this point than they were when that work was being done.

Colin Keir: Okay. I understand the time constraints. I have a few other things to ask, but I will leave it there.

Tavish Scott: My first question is for the director general. When the Government appointed the head of Revenue Scotland, was there an internal board or was it an external recruitment exercise?

Alyson Stafford: It was a posting into the role. The head of Revenue Scotland was brought in on a proportionate basis across director of financial strategy and head of Revenue Scotland, recognising that there would be a start point and a ramping up of capacity. It is getting the balance between the people who were needed and the cost.

Tavish Scott: Was it an external exercise or an internal one?

Alyson Stafford: It was internal.

Tavish Scott: There was no external recruitment to the post.

Alyson Stafford: That is right.

Tavish Scott: Was there a reason for that? Is that normal at that level, for a very senior job in the Scottish civil service?

Alyson Stafford: I think it is about recognising that there are different phases when you—

Tavish Scott: I want to know whether that is a normal process for a senior job like that in the civil service.

Alyson Stafford: Individual posts are assessed, at the particular time, on a case-by-case basis.

Tavish Scott: Thank you—that is very helpful.

I return to the convener's question about the evidence that Ms Emberson gave to the Finance Committee on 26 November. In that evidence—as you have already mentioned—you said to Gavin Brown:

“There has been a lot of progress but there is nothing negative that I need to report.”—[*Official Report, Finance Committee*, 26 November 2014; c 29.]

You said that despite knowing that there was an Audit Scotland report that showed that risk had increased.

10:45

Eleanor Emberson: I knew that an Audit Scotland report was due to come out and I had some expectations of what it might say.

Tavish Scott: You had factually signed it off.

Eleanor Emberson: I did not factually sign off the Auditor General's assessment of risk. I agreed the facts—the dates and numbers—on which all of

this is based. As the Auditor General has already said, she reached her own conclusions.

Tavish Scott: Which you do not agree with.

Eleanor Emberson: I do not share her perception of risk.

Tavish Scott: You do not agree with her.

Eleanor Emberson: Yes.

Tavish Scott: You felt that there was nothing negative that you needed to report to the Finance Committee on 26 November.

Eleanor Emberson: I said that there was nothing negative that I needed to report in terms of what had changed between when I submitted my written report to the committee in mid-October and the end of November.

Tavish Scott: You did not feel obliged to tell the Finance Committee—a committee of this Parliament—anything else that might have been of interest to it.

Eleanor Emberson: The committee asked me about progress and about the red-amber-green system. I declared that we had a number of areas at amber, which would indicate active risk and active management of risk. I thought that I gave the committee a fair picture of—

Tavish Scott: You think that you gave the committee a fair picture by saying that there was nothing negative that you needed to report. Was that a fair picture?

Eleanor Emberson: In terms of the question that I was asked, it was—yes.

Tavish Scott: My, my.

In that case, if you disagree with the conclusion that risk has increased, how are we meant to make an assessment of what you are saying today? We have people from Audit Scotland in front of us every couple of weeks and they do not say such things lightly. You are a senior civil servant and, basically, you are saying that they are wrong. Why should we believe you?

Eleanor Emberson: You can believe me on staffing because I have told you the number of staff we have in place, and you can believe me on IT because I have told you that we have a system in testing; I have seen a demo of it. External people will come in to test the system in January. You will be able to see whether all of that remains on track.

Tavish Scott: So there is nothing to worry about—it will all be perfect on 1 April.

Eleanor Emberson: You can be sure that we are on track to deliver for 1 April, and you can be sure that I am on top of working out whether there

are any problems and any actions that I need to take to deal with them.

Tavish Scott: That is just assertion, because the Auditor General says something different. Who am I meant to believe?

Eleanor Emberson: Well, I am asking you to believe me.

Tavish Scott: I have no further questions to ask.

Gil Paterson: I will take a slightly different direction. The Auditor General's report states that

"Scottish and UK ministers are still to agree the adjustment to the block grant for the devolved taxes",

and goes on to say that

"the Scottish Government has assumed that the reduction to the block grant in 2015/16 will allow it to meet the funding requirements of its budget and potentially establish the first payment into the cash reserve."

Do you have any information for the committee on what the implications will be if the Government's assumption is not met?

Alyson Stafford: As far as the block grant adjustment is concerned, some progress has been made. In his autumn statement at the beginning of December, the Chancellor of the Exchequer announced that the UK Government would be changing its approach to stamp duty land tax. That has delayed the process of agreeing the block grant adjustment, because the data that are used as the basis for agreeing the adjustment will be sensitive to the forecast of tax from a UK perspective in 2015-16.

I can report that active progress has been made since the autumn statement. Officials have followed matters up and there have been discussions between UK and Scottish ministers. I expect an agreement to be in place by the time further material on the budget comes to Parliament in January. It is at that point that Scottish ministers and the Parliament will be able to assess the extent to which the block grant adjustment and the assumptions that were being made when we had to set out the draft budget in October this year can actually be delivered or can be adjusted appropriately.

Gil Paterson: Will using the adjustment that you have described make the deal cash neutral, or is there the potential for the Scottish Government to lose revenue?

Alyson Stafford: The principles that were set out at the time of the draft budget were looking for that cash-neutral position and inclusion of something to go into the cash reserve. It must be the final analysis of the block grant adjustment that determines what that actually means in practice, but the feedback that we are getting is that we

expect the adjustment for 2015-16 to be agreed in time for us to be able to deal with the necessary and normal budgetary processes in Parliament at the turn of the year.

Sandra White: Can we establish one thing? Everyone has agreed that it is a large and complex issue and that it has been a moveable feast with the Smith commission and the extra powers, during which process the implementation of the report was taking place. That is established, so I want to go forward by asking about what the report says.

Ms Emberson said that the figures in the report are factually accurate and that she agrees with them, but when it came to the Auditor General's conclusions she would not necessarily—I do not want to say “agree”; let me say that her perception was slightly different. I will take you through some points in the Auditor General's report. The first is:

“There is a risk that Revenue Scotland will not fill all of its operational posts in line with its plans”,

although the report also states that in phase 2 there would be

“Staff in post by the end of February 2015 (as originally estimated).”

Will those posts be filled in time for 2015?

Eleanor Emberson: We will have for 1 April all the people we need to collect the taxes. As I mentioned, we have filled 21 of 40 operational posts. Eight more are in a recruitment process—for three of those interviews are scheduled, and five are at a slightly earlier stage. That will leave us with 11 posts to advertise in the new year. I have no reason to believe that we will not have all the people we need.

It might be important to mention that, although we have a plan to bring people in by February, there has already been discussion before the committee of the critical path. That second phase of 20 posts are not on the critical path—nor, indeed, are the last 11 that I mentioned we have still to recruit. We do not have to have all 40 posts filled in order to go live successfully on 1 April.

Sandra White: It may have been Eleanor Emberson who said it, or it may have been in the Auditor General's report, but I recall somebody saying that recruiting 40 staff all at the same time would not be beneficial to the process and that it would need to be done in phases. Is that correct?

Eleanor Emberson: Yes, that is correct.

Sandra White: In the second part of the report, the Auditor General says that

“There is a risk that the IT system for collecting the devolved taxes will not be fully implemented by 1 April 2015”,

and paragraph 27 suggests that that “may have consequences” and not that it will have consequences. Can you tell the committee what the situation is with the IT system? Will it be up and running for 2015?

Eleanor Emberson: As I have already mentioned, the IT system is currently in internal testing. In January, it will move to testing with external people; people who will eventually be users of the system will come in to help us with the testing. Once that testing has been done and we have addressed any problems that arise, we can have a high degree of confidence that we will be ready to go live on 1 April.

Sandra White: There has been talk of rising costs, and one of the witnesses who was on the panel with the Auditor General said in response to a question from Mary Scanlon about costs going up to £4 million that that rise was over a three-year period, so that the annual figure is £1.7 million. However, paragraph 46 on page 17 of the Auditor General's report shows that there is actually a saving on HMRC's costs, with a downward revision of between £5 million and £10 million. Will the money that is to be saved, as mentioned by the Auditor General, be subsumed as a saving in the overall running costs of the project?

Eleanor Emberson: The savings that come from the reduction in costs from HMRC are considerably larger than the increased costs for Revenue Scotland. They will flow back to the Scottish Government to be allocated to other public services, as you would expect.

Sandra White: I just wanted to make the point that £10 million is a substantial saving, when compared with a £1.7 million increase. That is a positive aspect.

The Convener: I am sorry, but was that bit about the Scottish rate of income tax?

Eleanor Emberson: Yes.

Nigel Don: I apologise for not being here at the beginning of the evidence. I do not think that I missed much, but I am sorry if I repeat anything, although I am sure that people will point that out.

You mentioned the critical path, which I raised earlier and wish to return to. I am grateful for your comments about the staff posts that are not on the critical path. Am I right in thinking that—as is implied by exhibit 2 on page 9—on 1 April you will not suddenly find that everybody wants to send you a tax return, and that what will actually happen is that people who happen to have bought or sold properties—whoever is responsible for doing that—will send you something relating to the transactions that have happened on that day? Will there be a relatively steady stream of transactions

for you to deal with, rather than a pile of them suddenly arriving like the Christmas post?

Eleanor Emberson: We know from our colleagues at Registers of Scotland, who have been in the business for many years, that there are seasonal fluctuations in the property market. We expect between 450 and 600 tax returns per working day during the year, but the figure will vary. We are planning for going live based on the possibility that the number might be significantly higher, so that we are ready if there is a spike on 1 April. We think that there could be up to 800 returns on the first day because of a combination of factors in the transition between the taxes, and the help to buy scheme.

Nigel Don: If there is a relatively steady stream—albeit that there are bound to be fluctuations—and if it so happens that the system does not quite work on 1 April, you can process the returns manually and get the system running on 2 or 3 April, or whenever. My real question is this: is this a soft landing—I think it is—or is there some genuinely critical date at which the system must work, or else we will be in trouble?

Eleanor Emberson: We absolutely have to have a means of collecting the tax and processing the tax returns from 1 April. If it had to be a paper-based system for a period, we could certainly make that work and still deliver a good service and ensure that the money was in the door. However, that is not what we are planning to do.

Nigel Don: I am glad to hear that.

I return to the idea of critical paths, which are always a bit of a problem when we are having to test stuff. That is part of the process. We never quite get it right, and the system needs to be tweaked, but we never know how long that will take. How meaningful is it to have some kind of critical path analysis? I am sure that you have one in this case. Where do you derive your confidence from?

Eleanor Emberson: We derive our confidence from a wide range of factors, including that we monitor progress and assess risks regularly. We have been doing that weekly. I draw confidence from the fact that if anything were to come up that I had not foreseen and that we are not planning for, we have a contingency plan. I draw confidence from the fact that I have actually seen the IT system, which is perhaps an advantage that I have over everyone else in this discussion. I draw confidence from the fact that I know where we stand on staff recruitment. I work with the staff, and I know where we are.

Nigel Don: It is still an IT project.

Eleanor Emberson: It is an IT project—you are right about that—until we have completed full

testing, but that would be the case no matter how much time we had and no matter where we were. You cannot know until the very end, when you have done all the testing and you are sure that the system is ready. I have no reason to believe anything other than that we will be ready for 1 April.

Nigel Don: I am not doubting that, but I wanted you to put it on the record, because there is a tendency to believe that IT systems are just like cars: that when you put all the bits in the right place and put petrol in, they will work. We need to understand that they may not be like that.

11:00

Mary Scanlon: We have no reason to believe that the tax will not be collected on 1 April, but we have read a report that says that there is “increased risk” relating to your ability to collect on 1 April.

In response to Tavish Scott’s questions you talked about testing in January. Three weeks ago at the Finance Committee, Ms Emberson said:

“It is our intention to do in February and March what I, as a layperson, would describe as snagging: making absolutely sure that there are no little glitches.”—[*Official Report, Finance Committee*, 26 November 2014; c 31.]

The truth is that you may have little glitches, and you may have big glitches: you do not know. In “snagging”, which you have told the Finance Committee you will be doing, how can you be absolutely sure and totally confident that staff will not have to write out 800 transactions?

Eleanor Emberson: What I informally described as “snagging” is formally described as a “restricted testing environment”. After the system has been fully tested through user acceptance testing in January, it will be made available to a group of people who will eventually be users of the system. They will be able to play with it—I am told that I can use language like that—and make sure that we have missed nothing in testing. We do not anticipate that that will be the case. Such testing is simply good practice. It is what you would expect me to do at that stage in an IT project: we stop doing system development and make absolutely sure that the system works.

Mary Scanlon: So, you can sit here and say that in February and March people will “play” with the system, and you can guarantee with confidence that snagging for glitches, be they small or large, will be overcome and all will be well on 1 April. Is that what you are saying?

Eleanor Emberson: That is what I believe will happen.

Mary Scanlon: So, you know what is coming, you know exactly what the glitches may be, you

know what snagging may be, and you know what will come forward in the testing. As a “layperson”, as you said to the Finance Committee, you can say that you will overcome all that, and say with confidence that you will be up and running on 1 April.

Eleanor Emberson: That is what we are working to achieve. We have very thorough testing plans and a good contractor: we are on track.

Mary Scanlon: We heard that two years ago.

Eleanor Emberson: Forgive me, but I do not think that two years ago you heard that we had a contractor or were doing system development.

Mary Scanlon: We heard that ROS had problems that had been highlighted over many years. ROS is essential to the success of the project, as well.

John King: ROS was before the committee about two years ago. Since then we have learned a lot from the “Managing ICT contracts” report that Audit Scotland produced.

I can give you more than assurances that we have taken on board Audit Scotland’s comments about governance, financial budgeting and intelligent client functions. Over the past two years we have delivered on two major pieces of Scottish Parliament legislation. We delivered the crofting register at the end of November 2012 and a week past on Monday we delivered a range of new systems to support the Land Registration etc (Scotland) Act 2012.

Much of the discussion has been on progressing and planning the delivery of such systems. Every complex IT system is subject to change. What is important is having a plan, having actions for if the plan has to be deviated from, having a way of managing risks and having a way of managing dependencies.

As a member of the tax administration programme board I have dual role. I have one role as supplier: ROS must supply certain functions in order for the tax to go live. The main piece of IT equipment that we have to supply is ready and has been tested by the firm that is producing the eventual IT system. I can give you a reassurance that that is in place.

Our other main role is in policing the new tax. We currently do that for stamp duty land tax, so we are already very well prepared.

ROS has learnt from its experiences before this committee and we have certainly put that learning into active practice for the benefit of our customers—and, we hope, for the benefit of the wider Scottish public.

The Convener: I do not know whether Alyson Stafford or Eleanor Emberson is responsible for

this, but what plans do the agencies have to report annually on their performance in the various areas of tax compliance?

Eleanor Emberson: We are currently developing our performance reporting framework. We want to make sure that we are as transparent as possible. We will produce reports that will explain the volumes of cases that we have dealt with and the amount of money that has been collected. We are keen to ensure that people can understand what return we are getting from compliance work, and to work with the committee on what kind of reports it would find helpful.

The Convener: Will there be annual returns from each of the agencies on tax collection, debt management, debt losses, value of tax, secure compliance yield, levels of error, fraud and so on? Will all that be reported annually?

Eleanor Emberson: It will certainly be reported annually, but we have been working on the assumptions that the committee will want information more frequently than that and that we would need to work with you on what sort of schedule of reporting would be helpful.

The Convener: Right. That is helpful. What is the latest date by which you would have to decide to use the contingency plan?

Eleanor Emberson: According to how we have developed the plan, the date would be around the end of February.

The Convener: Will you notify the committee if it is intended that the contingency plan will be used?

Eleanor Emberson: If that is what the committee would like us to do, then yes, we will.

The Convener: That would be helpful, thank you. I know that you have a hectic morning—you are now going to the Finance Committee—but the meeting has been very useful. Thank you for your time.

Section 22 Reports

“The 2013/14 audit of NHS Orkney: Financial management”

“The 2013/14 audit of NHS Highland: Financial management”

11:07

The Convener: Item 4 is on section 22 reports. The committee has written submissions from the Scottish Government and NHS Orkney on the Auditor General for Scotland’s reports. I am in the hands of committee members. You can either note the submissions or request further written or oral evidence.

Committee members should be aware that we are taking evidence on 2 February in Inverness from NHS Highland. Also, we are taking evidence from the Scottish Government on the “NHS in Scotland 2013/14” report on 14 January, so you could decide to defer consideration of whether to take evidence from the Scottish Government until after the evidence sessions, or you could highlight any issues and pass them on to the Health and Sport Committee. It is for members to decide which option to choose.

Colin Beattie: I think that your suggestion that we defer the decision until after the evidence sessions is very sensible.

The Convener: Is that agreed?

Mary Scanlon: Yes, I agree.

The Convener: Before we go into private session, I intimate to committee members that I will be moving on from my post as convener of the Public Audit Committee. The inevitable political reshuffles that take place in all parties have occurred and I am moving to a new role.

I thank the current committee members—some of whom have recently joined the committee—and previous members whom I have served with over the piece. As always, the Public Audit Committee has been a stimulating and interesting committee that usually adds value to the work of the Parliament.

I have commented before that committees of the Parliament need to watch that they do not become complacent. We have a role to play in holding the Government of the day to account, whatever its political complexion, and committees need to be robust and vigorous. Otherwise, we are letting down not only the committee but the Parliament. I think that the Public Audit Committee has a commendable track record over the years.

I also thank Jane Williams and her current and previous clerking teams. They have been exceptionally diligent and hard working and have kept me right on many occasions. I appreciate that and I thank them very much.

Mary Scanlon: Convener, I wonder whether you will allow me to say a few words as deputy convener on behalf of the committee. When I came to Parliament in 1999, and you were sitting there as the arch-socialist on the Health and Community Care Committee and I was the token Tory, I never imagined that we would be sitting here and working so well.

Tavish Scott: He is still an arch-socialist.

Mary Scanlon: Yes—and I am still the token Tory.

I just wanted to thank you, convener. This committee is very special; it is about scrutinising the Government, of whatever colour, and organisations. I enjoy it so much because it is all about effective spend and value for money. It really does not matter that you are the arch-socialist and I am the token Tory, because this is not about politics. It is about spending taxpayers’ money.

I just want to say that it is no mistake that you have been nominated as—and have become—politician of the year for several years, because you have done an excellent job. I do not know whether your successor will have the Rottweiler qualities that you have, but I hope that we will get someone who takes on board the approach that you have taken. I think that the whole Parliament respects the job that you have done on the committee, and from my point of view it has been a tremendous pleasure working for you. I think we have done very good work on the committee and I know that it will continue.

The Convener: Thank you, for your comments. I am sure that you meant “Rottweiler qualities” as a compliment.

Mary Scanlon: I did. *[Laughter.]*

The Convener: I will bring in Colin Beattie in a moment. One thing that I neglected to mention underpins all the committee’s work. Committee members have a tremendous role to play and the staff that support the committee are fantastic, but we could not do any of this work without the quality of the reports that come to the committee from Audit Scotland. Over the years, I and other conveners have paid tribute to the work of Caroline Gardner and her team, and that of her predecessor, Bob Black. Their work is exceptional. It is of the highest professional quality, and it is incisive and concise, which is always helpful. To be frank, we could not do our work without that input from Audit Scotland.

Colin Beattie: I add my congratulations on your elevation and wish you well in your new post. We will miss you—although I seem to recall that, in my time on the committee, this is your second departure. [*Laughter.*]

Mary Scanlon: He might be back.

Colin Beattie: Hopefully he will go on to greater things.

The Convener: Thank you very much. With that, we move into private session.

11:13

Meeting continued in private until 11:33.

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e-format first available
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