The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 21 January 2015

Session 4

Wednesday 21 January 2015

CONTENTS

Col.

FINANCE COMMITTEE
3rd Meeting 2015, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)
*Gavin Brown (Lothian) (Con)
*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)
*Mark McDonald (Aberdeen Donside) (SNP)
*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Borland (Federation of Small Businesses)
Garry Clark (Scottish Chambers of Commerce)
Edward Troup (HM Revenue and Customs)
Nicola Walker (Confederation of British Industry)
Sarah Walker (HM Revenue and Customs)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance Committee

Wednesday 21 January 2015

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

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

Our first item of business this morning is to decide whether to take items 3 and 4 in private. Are members agreed?

Members *indicated agreement.*

Further Fiscal Devolution

09:30

The Convener: Our next item of business is to take evidence as part of our inquiry into proposals for further fiscal devolution. This will consist of two evidence sessions. In our first session, we will hear from Colin Borland of the Federation of Small Businesses Scotland, Garry Clark of Scottish Chambers of Commerce and Nicola Walker of the Confederation of British Industry. Good morning to you all.

Members have copies of the written submissions that were provided to the Smith commission by each of the organisations that are represented by our witnesses this morning. We will go straight to questions.

You are all old hands, so you will know the format. I will open up the discussion with some questions. I may ask a question of a specific individual, but colleagues round the table should feel free to add their own comments. I may ask each of you one specific question. Then, once I have exhausted my own questions—for the time being, at least—I will open up the session to colleagues.

I start with a question for the CBI. The fourth paragraph of your submission says:

> "The devolution of certain powers could encourage enterprise in Scotland, if the changes are made with growth and job creation at their core."

Will you go through some of the things that you believe could be devolved that would achieve that "growth and job creation"?

Nicola Walker (Confederation of British Industry): One of the things that CBI members were keen to emphasise in all our conversations with them about further devolution was the potential for powers that are already devolved to be used in a better and more effective way. They mentioned certain powers around infrastructure, transport, planning and skills—fundamental powers that can ameliorate the business environment, help businesses to grow, help to create a highly skilled workforce and help to create a strong infrastructure in order to help to drive inward investment to Scotland and help businesses to prosper and thrive.

It was very apparent to us that people were not just thinking about further powers that could be devolved; they were thinking about how to use the powers that are already devolved in a better way. It was also something of a communications exercise, as it was clear that many businesses did not know which powers were already devolved. It was partly a question of how better to use or how to strengthen powers that are already devolved. What more can be done around planning and infrastructure? How can it be made clear how Scotland is already using its powers to boost jobs and growth?

The Convener: That does not really answer the question of what further powers can be devolved to Scotland, which is really the purpose of this exercise.

You make an important point. Everyone round the table wants the Government to maximise the powers that it has and to be much more efficient in everything that it does. We have national performance frameworks and so on to address that in a less partisan way. However, we are considering further fiscal devolution. Can you tell us what more you think can be devolved?

Nicola Walker: One thing that has particularly interested us about infrastructure is the potential for Scotland to gain more borrowing powers. We could consider the success of some developments in London, such as the crossrail bond, and the potential impact of the so-called tartan bonds—those are already on the table, but they are not necessarily already in play. More borrowing powers could be a really strong and good way to ameliorate the business environment and strengthen Scotland's infrastructure. That is as yet untested, but we feel that those powers could be hugely beneficial.

The Convener: I was going to ask you about borrowing. Garry Clark's submission touches on it, but I did not see anything about borrowing in your submission. Perhaps I missed it.

Nicola Walker: The separate submission that we made directly to the Finance Committee touched on borrowing, if I remember correctly.

The Convener: I do not appear to have received that submission.

Nicola Walker: I am happy to forward it to you.

The Convener: I was going to ask you a specific question about borrowing, so I am glad that you mentioned it.

Garry Clark, why is Scottish Chambers of Commerce neutral on the issue of borrowing?

Garry Clark (Scottish Chambers of Commerce): We believe that the focus of borrowing has to be on capital spend. There is scope for development and further devolution in that regard but, on balance, there is a neutral view across the network in terms of borrowing per se. However, we have for some time been supportive of specified borrowing with the specific purpose of increasing capital investment, particularly infrastructure investment across Scotland.

The Convener: The Scottish Futures Trust talks about prudential borrowing and, for example, allowing sensible borrowing in situations in which there is an ability to pay the loan back. That is why I was surprised that Scottish Chambers of Commerce is not particularly keen on it. I would have thought that some of your members could take advantage of additional capital spending, for example.

Garry Clark: A lot of what we put together in terms of recommendations on borrowing was before the Smith commission recommendations. We support what Smith came up with in terms of specifying the purpose of borrowing, borrowing within agreed limits and focusing it on capital spend.

Colin Borland (Federation of Small Businesses): We did not refer to borrowing in our Smith commission submission, simply because it is not an issue that has come to us from our members. Our submission was based on the survey that we carried out earlier in the year, particularly around not so much the macroeconomic issues in the fiscal framework but the practicalities. That is where we can add some value to the process, and we have been clear that we are going to focus our attention on that.

The Convener: Your paper mirrors a lot of what the CBI has said in one respect, which is that you want the focus of any new devolution settlement to be firmly on driving economic growth. I am sure that everyone would support that. However, what specific levers could be further devolved to enhance that?

Colin Borland: We considered the tax take around taxes that are analogous to economic performance. I think that we said that there is probably quite a strong argument for the devolution of income tax, as that is directly linked to the health of the economy, and I think that we also made the point about some sort of allocation of VAT receipts to Scotland because, again, that is a pretty good yardstick of economic activity. The hope is that that will hardwire economic considerations into decisions that the Scottish Parliament makes, which we think will be good for business and the economy.

We were keen to avoid arguing for the devolution of certain powers because we happen to agree with how the current Scottish Government would use them, or indeed arguing for certain powers to be reserved because we disagree with how the current Scottish Government would use them. However, we can construct an argument that making the Scottish Parliament more responsible for raising more of the money that it spends is in itself a good thing for business because it means that those economic considerations are far more to the fore than they would be under the current settlement.

The Convener: I am sure that colleagues will want to explore those areas further.

Scottish Chambers of Commerce is quite keen on the devolution of air passenger duty. Its submission states:

"Scottish Chambers of Commerce has long taken the view that Air Passenger Duty (APD) is a tax which impacts negatively upon Scotland's connectivity".

It adds:

"the devolution of APD would not be associated with administrative or economic inefficiencies".

It also talks about the fact that the power to set such rates is devolved to the Northern Ireland Assembly.

However, the CBI takes a different view. Garry Clark, will you expand on why you believe that APD should be devolved? I will then ask Nicola Walker to set out the CBI's view.

Garry Clark: As you said, Scottish Chambers of Commerce has always taken the view that air passenger duty is damaging because of its effect on connectivity, and particularly on connectivity from Scotland. We appreciate that, to an extent, air passenger duty is used to mitigate excessive demand on capacity at airports in the south-east of England, but when it comes to capacity at Scottish airports and their ability to compete for services worldwide, APD is a negative drag on those airports and thus on our connectivity.

It seems to us that it would be relatively straightforward to devolve APD on a regional basis. To an extent, that has already been done in Northern Ireland, and we recommend that control of APD should be devolved to the Scottish Parliament. We say that because it is a tax that impacts directly on areas for which responsibility has already been devolved, such as tourism and enterprise. It would make sense to have the ability to use that tool to impact directly on areas that are already part of the devolved framework. We argue that APD should be devolved as quickly as possible and that it should then be radically reduced—or, even better, eliminated entirely, as it has been in many of our European competitor nations—to lessen the burden and open up connectivity in Scotland.

The Convener: Nicola, the CBI would like there to be no air passenger duty, but you say that, were it to be devolved to Scotland,

"this would have a direct impact on other regions of the United Kingdom ... and ... create competitiveness issues in the English regions".

Will you explain why you think that it would not be in Scotland's interests to have power over APD?

Nicola Walker: Sure. As you can well imagine, if we take a United Kingdom-wide perspective, members of the CBI have strong and differing views on the issue. Some of our Scottish members are keen on the devolution of APD, from which many of the Scottish airports would benefit. However, if we take a UK-wide perspective and remember the passage in the Smith report about the principle that there should be no detriment to the rest of the UK, we believe that devolving APD to Scotland and not taking action elsewhere in the UK would have a detrimental impact and could create an inefficient cross-border bidding war between airports.

We need only look at what has happened in Ireland, where action has been taken on APD for long-haul flights precisely because of the impact of having different regimes across a land border. We would not want that situation to be replicated across the border between Scotland and England or indeed the border between Wales and England.

We believe that APD is a distortive and uncompetitive tax and that, for reasons that are similar to those that Garry Clark outlined, such as the impact on tourism, reform is necessary at a UK level. At a time when we should be prioritising our export activity, we do not believe that APD, as it stands, is a competitive tax. However, because devolving control over it to one area but not to others would have a distortive effect, we think that action should be taken on a UK-wide basis.

The Convener: So you do not believe that Scotland should have any competitive advantage. It could be argued that, if we did not have the revenue from APD, we would have to make changes in other areas of our budget, so surely it is a question of judgment.

Twenty or 30 years ago, it was possible to fly directly from Glasgow to Porto, Kefalonia, Banjul in Gambia and all sorts of North American airports, but it is no longer possible to do that—people who want to go to those places have to take a train or a bus, or drive, down to Manchester. How does that advantage Scotland? Glasgow airport employs 4,300 people. How many people would it employ or would Edinburgh airport employ if we had control over APD, given the advantages for business and tourism? Does the south-east of England not have enough of a competitive advantage?

Nicola Walker: We must remember that APD is only one of the levers that affect that competitive advantage. The Scottish Government already has control over many other areas that have an impact on demand for aviation. I am thinking of infrastructure, planning, demand in the area surrounding an airport and people's ability to get to an airport easily. All those things have an impact on creating the demand on the ground that makes certain routes viable. APD is one lever, but it is not the only one.

The Convener: If we improved the roads to Glasgow airport, would that reduce the number of people who have to go to Manchester to fly long-haul to international destinations?

09:45

Nicola Walker: Considering capacity and demand on the ground is one way in which airlines determine whether routes are viable. Regional airports cannot support some long-haul routes because the capacity and demand is not there. Improving surface access to airports can help to stimulate demand and make some routes more viable but, as with APD, it is not the be-all and end-all.

The Convener: It seems to be a marginal factor. Before I bring in Mark McDonald, I have to say that I would have thought that the CBI was in favour of competitiveness and competition.

Nicola Walker: We are in favour of competition UK-wide, which is why we believe that APD should be reformed UK-wide to make the UK more competitive.

The Convener: But not Scotland within that.

Mark McDonald (Aberdeen Donside) (SNP): On APD, did the CBI receive any input from airports? I do not have a list of CBI members in front of me, and I know that things have changed recently, but are any of the airports members of the CBI? I know from meeting representatives of my local airport that the airports are very keen for APD to be devolved, and devolved early.

Nicola Walker: Sure. As I have already said, some of our Scottish members are keen for APD to be devolved, and the Scottish airports are of course very keen in that respect. We also have many other airports throughout the rest of the UK that would not be keen for APD to be devolved, for the reasons that I outlined. We try to take a UK-wide perspective for that reason.

Mark McDonald: I note your point about improving the infrastructure around airports, which is happening in many locations. However, when an airline is looking at developing a route, it looks at its outgoings and its income, and APD forms a large part of that consideration. I am aware from my discussions with representatives of a number of airlines and airports that some routes are on the shelf and cannot be progressed because they are economically unviable as a consequence of APD.

The issue does not concern only the airports. In Aberdeen, which I represent, the airport is a vital business hub, particularly for the oil and gas sector, as it enables businesses to access London and other key markets.

I am interested to know what evidence you have taken on the impact of APD on the development of routes, and in particular routes from Scottish airports. I am thinking not only of tourist routes but of key business routes and destinations.

This might be an appropriate point at which to open up the discussion so that Garry Clark can give some input, convener.

The Convener: Do you want to respond to that first, Ms Walker?

Nicola Walker: I agree completely that the impact of APD on some of those new routes is palpable but, again, that is not just a Scottish issue. It is happening across the UK, which is why we take a UK-wide perspective, but I do not disagree on the impact.

Colin Borland: We did not refer to APD in our submission to the Smith commission, simply because it is not an issue with which we have been involved in any great detail over the years. It will not surprise the committee to learn that, if we ask our members what their transport priorities are, they say that they would like local roads to be fixed. That is where we have focused most of our attention.

Having said that, the Smith proposal on APD seems perfectly sensible to us, and we are quite relaxed about it.

The Convener: I have a question for Garry Clark. In your submission, you state that when Scottish Chambers of Commerce surveyed its members earlier this year,

> "some 68% of businesses responded that they would like to see the Scottish Parliament have more powers."

You mention specifically the need for control over certain aspects of immigration. For example, you argue for

> "the devolution of rules for student visas in order to take full advantage of the interest in Scotland's world class universities shown by talented, high potential individuals from across the world."

Could you tell us a wee bit more about your views on that particular issue? How would devolving those powers work? What would the economic impact be?

Garry Clark: We think that Scotland needs to take full advantage of all the assets and advantages that we have as a nation, one of which is our world-class education system. It reaches out across the globe and attracts the finest minds from countries far and wide, and we need to take the fullest possible advantage of that.

The recent restrictions on visas for entry into the UK for study purposes and for remaining in the UK following completion of a course of education have been noticed by the universities, and I have talked to some of the airports, which have noticed a significant drop in the number of long-haul passengers from nations such as China in recent years.

We need to take full advantage of those universities and colleges that are attracting the finest minds. We need to get more young people from across the world into those universities and we need to take full advantage of them while they are there and after they are there. In other words, although it is great news for the universities that they are able to attract international students, because they can raise revenue from that source, we need to ensure that as many as possible of those students have the opportunity to participate fully in the Scottish business environment after graduation, so that when and if they go about their business in any part of the world, they take something of Scotland with them and build up a network of connectivity with Scotland and Scotland builds up a network of connectivity with them. That will stand Scotland in good stead for many years to come.

When we look at the product of Scottish colleges and universities, we see leadership in countries and businesses all over the world, and we need to take the fullest possible advantage of that. Giving Scotland some leeway in allowing us to take that advantage will, we believe, lead to Scotland's long-term benefit.

The Convener: How would that policy benefit Scotland? What impact would it have on spend in Scotland or on employment?

Garry Clark: We have not taken a fixed view of what the immediate benefit would be. The universities would benefit directly from the spend on purchasing education in them, but we are also considering the longer-term, perhaps more intangible benefits of networks being built up with key individuals.

The Convener: Familiarity with Scotland would increase across the world. In addition, students who come here spend money in the shops and businesses of Colin Borland's members. Does the FSB support that idea?

Colin Borland: It seems to be perfectly logical. If we are going to all that effort to attract the brightest young people to the country and they are looking for somewhere to settle down, buy a house, start a family and start contributing seriously to the economy, it would be brilliant if they did all that here. That would be good news for the economy and the small businesses that form part of it.

The Convener: What is the CBI's view?

Nicola Walker: To be honest, members have not raised the issue with us at all.

The Convener: I did not see it mentioned in your submission; that is why I was wondering.

Nicola Walker: No. Our members have not flagged up the issue or said that they would like to see it pursued in the devolution process. I am happy to go away and ask about it and to come back to the committee but, as I say, our members have shown no appetite for devolution in that area.

The Convener: Thank you. I will stick with the CBI for the moment, but this will be my last question, because I want to allow colleagues to come in and cover other areas or to revisit some of those that we have already discussed.

The CBI says that it is not in favour of devolution of the national minimum wage and that

"Businesses fear the politicisation of the process that would inevitably follow the creation of competing minimum wages, with employers and employees losing out depending on the political weather."

That was in paragraph 14 of your submission. Prior to that, in paragraph 11, you talk about a possible "race to the bottom". Why would the devolution of the national minimum wage lead to a race to the bottom rather than a race to the top?

Nicola Walker: Feedback from our members indicated very strong support for the minimum wage and for the evidence-based way in which the Low Pay Commission goes about setting it. There is also strong support for the proposal in Lord Smith's report to keep the minimum wage reserved.

We see pay in the private sectors in Scotland and the rest of the UK as following fairly similar structures; they enjoy similar percentiles. We do not believe that the pay structures necessitate Scotland having a different minimum wage from the rest of the UK. The Low Pay Commission's evidence-based approach would lead to a similar result for Scotland and the rest of the UK. The approach is suitable for the whole of the UK, and we do not see any particular need to seek to devolve the minimum wage.

The Convener: I was going to follow up on that, but the deputy convener is keen to ask a supplementary.

John Mason (Glasgow Shettleston) (SNP): On that theme, are you also against the London weighting allowance?

Nicola Walker: We have not asked our members about that specifically, but I would be happy to come back to you on the matter.

John Mason: If you want a level playing field for the minimum wage, should we not have a level playing field for all wages?

Nicola Walker: The point is that the pay structures in Scotland and the UK as a whole are relatively similar. London, as you will know, is a different planet.

The Convener: Indeed. If the consensus in Scotland were that the national minimum wage should be higher, you do not think that we should have the ability to change the level.

Nicola Walker: That would be a political rather than an economic decision.

The Convener: The point that I am making is that you do not think that we should have the ability to change the level.

Nicola Walker: The national minimum wage has worked as well as it has done because of the Low Pay Commission's evidence-based approach. It has studied changes in the economy, looked at current and future trends, and made a recommendation based on those studies. That has enabled businesses to absorb any rises in the national minimum wage, which has made it possible for jobs not to be lost as a result.

The Convener: How has it worked well if more than half the people who live in poverty are getting subsidies from the taxpayer because the minimum wage is so low? If the minimum wage is not a living wage and people have to be subsidised by the taxpayer, is the level not set too low?

Nicola Walker: We are perhaps going slightly off the issue. As I say, the test for whether the minimum wage is working is whether the private sector can absorb any rise. I suggest that, since the national minimum wage has been implemented, the private sector has been able to do so. We have not seen job losses; we have seen economic growth. A lot of businesses would point to that as a success.

The Convener: The Conservatives said that hundreds of thousands of people would lose their jobs if a minimum wage was introduced, but that did not happen. Colin, should Scotland have a role to play in setting the minimum wage—regardless of what that wage is—or does the FSB think that it should continue to be set at UK level?

Colin Borland: First and foremost, we would want the Low Pay Commission—or something analogous to it—to continue. It has had the responsibility of setting the minimum wage at the highest level that it can without damaging jobs. That has been good, and we would want to safeguard that. Whether that could be transplanted into a Scottish context is a matter for debate.

Mr Mason made the point that there is a London living wage, which is different from the living wage elsewhere in England. Therefore, why would you have a minimum wage that just covered Scotland as a whole? If we concede the principle, would it not be more reflective of living standards to have different regional minimum wages? I imagine that the cost of living in the convener's constituency is quite different from the cost of living in Mark McDonald's.

We are not wedded ideologically to keeping the minimum wage on a UK-wide—except London—basis, but I am not sure whether there is a case for just applying it at Scotland level. If we were to take that step, would it not be more reflective of living standards to apply it regionally? We could investigate and debate that, and assess what the practicalities and the effect on real wage levels would be.

The Convener: Garry Clark, a number of your members are being accredited for paying a living wage. Should we have powers over wages in Scotland?

Garry Clark: Our members have taken the view that employment regulations as a whole should remain reserved simply because they are large and complex enough without potentially creating two sets of them.

We are having a conversation with our membership about the living wage at the moment. We have not yet taken a view on it, but we are likely to do so in the next few months.

The Convener: Thank you. I now open the discussion to colleagues around the table.

10:00

Jean Urquhart (Highlands and Islands) (Ind): Good morning. I will continue on the same theme. The CBI submission gives the impression that there is a stable economy and that we would be foolish to vote for independence and to break away from that. On page 4 in paragraph 11, your submission says that

> "The UK labour market works",

but it is not working for a lot of people. Why do you not mention that more and more businesses in Scotland are paying the living wage? What is your position on that? You have partially answered that question already.

In paragraph 14, you say:

> "the CBI ... supports the continuation of a UK-wide National Minimum Wage".

You must acknowledge that business organisations fought pretty hard not to have a minimum wage when it was proposed by the Labour Party. The minimum wage has been static for a long time, and the stable economy that you talk about does not have a stable workforce. The fact is that wages in the financial sector have grown by 19 per cent in the past year, yet living standards have dropped by 44 per cent. That is shocking. How can the CBI support that?

Nicola Walker: Living standards concern our members greatly. The CBI has done a lot of work on the issue and spoke extensively about it at our annual conference in November. Our flagship report was entitled “A better off Britain” and was about what could be done to ensure that living standards are raised.

We have had quite a jobs-rich recovery, but we have not seen wages follow suit. Our businesses have therefore been keen to pursue a cut in employee national insurance contributions as a means of boosting living standards. We have also done a lot of work around the education system and flexible childcare, and we are very supportive of the conversations that have been taking place in the Scottish Government about universal childcare provision.

Regarding the living wage, our message has always been that, when employers can afford to pay it, they will pay it. However, it is not the CBI’s place to dictate which employers should choose to pay it, which is why we do not refer directly to it in our submission. We do not think that it should be mandated; we believe that, when employers can afford to pay it, they will pay it.

Jean Urquhart: By the same token, do you have any comment to make, on behalf of your members, on the use of zero-hours contracts or short-term temporary contracts? Those are other things that make our workforce unstable and that make living almost impossible for a number of people.

Nicola Walker: Zero-hours contracts are legal employment contracts—the Department for Business, Innovation and Skills has looked into the matter very carefully. Nevertheless, the CBI has made it clear that, where abuse of such contracts is taking place, the letter of the law must be followed and the maximum penalties should be applied. There is no excuse for any such abuse. Zero-hours contracts are part of the current employment landscape. They are not used widely, and where they are used it is sometimes to the benefit of the employer and sometimes to the benefit of the employee. However, if they are being used in the wrong way, that should not be tolerated.

Jean Urquhart: Do you think that there is no evidence to show that they are being used in the wrong way?

Nicola Walker: I think that we are still some way from seeing a strong evidence base for any kind of change around zero-hours contracts. Where they are being abused, that should not be tolerated.

Jean Urquhart: Returning to an earlier statement about the unfair competitiveness and disadvantage to other parts of the United Kingdom that independence would have brought, I understand that a majority of people who sent responses to the Smith commission wanted the power to adjust the minimum wage to come to Scotland. Might that have set a competitive advantage that would have challenged the other parts of the UK in a good way and for all the right reasons?

Nicola Walker: Do you mean a competitive advantage in terms of a higher minimum wage or a lower one?

Jean Urquhart: I mean that being able to adjust the minimum wage—having the power to control the minimum wage—in Scotland is something that I understand a number of respondents to the Smith commission asked for. I know that it has not been recommended, but some of your earlier statements were about the differences and why things should remain the same so that there can be stability, and I know that a lot of people would question whether we have stability. Do you not see that having that power here could influence other parts of the United Kingdom?

Nicola Walker: I come back to my earlier point that the minimum wage works; it works because it is evidence based. If you look at the jobs market in Scotland and the jobs market in the rest of the UK and at the pay differentials, you will see that there is not really much difference. From an evidence perspective, even if the minimum wage were to be devolved, you probably would not end up with a different rate based purely on the evidence. If a political decision were to be made to increase the minimum wage, that would be different, and the impact of that might result in Scotland being more uncompetitive because the decision had been taken on a political rather than an economic basis, which would make it harder for the private sector to absorb the rise.

Jean Urquhart: We know that the Scottish Government is encouraging everybody to pay the living wage, which is a considerable increase on the current minimum wage, but the CBI does not recognise that in its paper. Scottish Chambers of Commerce is consulting its members and I am sure that the FSB’s members will be interested in that, too. If we generally increase the minimum wage, we increase the wellbeing of everybody in the country.

Nicola Walker: As I said, employers that can afford to pay the living wage will. It is not for the CBI to mandate that in any way; it is not for us to say that the living wage should be paid to all workers, because a lot of employers may not be able to afford to do so.

Jean Urquhart: I would be interested to hear from the FSB and Scottish Chambers of Commerce on those points. Scottish Chambers of Commerce has been asking its members about the living wage. Do you have the low pay unit's evidence on the improvement that can happen when people are paid the living wage, in terms of stability and reduced staff turnover? The evidence is mounting that there has to be an increase.

Garry Clark: That is certainly one side of the argument and we will take it fully on board. The other side of the argument is that there are businesses in our membership that would tell us that if their staff costs were to rise they would have to adjust staff levels. It may not be of benefit to employees if staff levels were to be reduced as a result of an enforced increase in staff costs. We will be looking at both sides of the argument on the living wage. It is obviously an important issue for us, because it is fairly central to the Scottish Government's business pledge, to which we will respond in due course.

On some of the wider issues, some of our most recent membership surveys have identified rising wage levels and a number of employers have increased wages, some by substantial amounts in recent months. That is to be welcomed. Some employers are able to afford it that were not before, and other employers are having to pay more to attract the staff that they need to undertake their work. Alongside the evidence that we are picking up of an increase in business investment and staff training, that is a positive sign for the economy at the beginning of this year. It remains to be seen how successfully that will continue throughout the course of the year, but we are picking up from our members some positive signs on wage growth, as the economy picks up.

Jean Urquhart: Many businesses said that they could not afford to pay the minimum wage when it was introduced, but somehow they managed, so would you agree that something as fundamental as setting a minimum wage across the board helps all businesses, because everybody has to pay it? It is not a question of whether one business can afford to pay it or not; it is about businesses not wanting people to live in poverty.

Garry Clark: Clearly, if it is applied across the board, it applies equally, but it may impact on some businesses more than on others, in terms of an associated increase in staff costs, and it may impact on employment. However, it is difficult to generalise; individual businesses' circumstances will dictate the response.

Jean Urquhart: This will be my last question on employment. Low wages are affecting the employment rate. We say that we have reduced unemployment, which is true, but would you agree that we have quantity, not quality?

Garry Clark: There is still a case for saying that that is true, in terms of the relatively slow growth in wages and the negative impact that that is having, compared to levels of inflation historically. Until now, a lot of the increase in economic growth in the UK and Scotland has been down to consumer demand. Consumer demand driving economic growth at a time when real wages are falling is not sustainable in the medium-to-long term. That is why I pointed out that some of the evidence that we are picking up is that there have been pretty healthy levels of wage growth over the past three months, in some sectors in particular—notably the construction sector, but also right across all the sectors that we monitor, which include manufacturing, retail, tourism, construction and financial and business services. We are picking up a pretty healthy level of wage growth, which is absolutely essential if we are to maintain a balanced economic recovery.

The Convener: Remember that the focus is further fiscal devolution, Jean—not general economic issues.

Jean Urquhart: I think that the matter is key to that, convener.

The FSB submission says:

"it certainly seems that the Scottish Parliament is set to become a more powerful actor in our economy."

We know from the unbalanced nature of the UK economy that growth has become decoupled from rising living standards. However, as I have shown in earlier questions, economic growth does not necessarily lead to increased living standards. What particular power would Colin Borland see coming to the Scottish Parliament that would make us

"a more powerful actor in our economy"?

Colin Borland: If the Scottish Parliament were responsible for a large number of income tax receipts and its ability to spend on the priorities of whatever Government was in power was linked directly to the health of the economy, that would have to be good news for the quality of decision making. It would mean that Parliament would be thinking about the practical impact—the effect on the businesses that make up that economy—because if Parliament did not do that, it would not have the money to spend.

I accept that quite how that mechanism is brought into effect and how we prioritise economic growth in Scotland without damaging the relationship with the rest of the UK is a big issue.

For example, we need to ensure that, if Parliament took decisions that damaged the economy, that would have an impact on the amount that Parliament would have to spend, and that it would be rewarded for positive pro-business decisions. How that will be put into legislation or practice is a big issue, and that is where a lot of the debate will be between now and when the changes come into effect. I will not pretend that there is an easy way to do it, but if we can do it, I believe that it is a significant prize. It will certainly enhance the decision-making process here and throughout Scotland.

10:15

Jean Urquhart: On that point, do we maybe talk too much about creating disadvantage? I suspect that many businesses that supported independence for Scotland saw that they were already disadvantaged and were seeking a level playing field. They might think that the opportunity to have more powers through the Smith commission could mean that we can actually make change and that, in the submissions, the argument is too much about maintaining everything and keeping it the same.

Colin Borland: We did the biggest-ever survey of small business opinion on the issue. When we asked small businesses about their hopes, aspirations and all the rest of it, some said that we could have a fiscal system and regulatory regime that are specifically targeted at the needs of Scottish businesses. However, they were outweighed by those who said that their biggest fear was having two systems or multiple systems of regulation, employment law, taxation and so on. Our businesses were strongly keen to preserve the single UK market, because they were worried about the extra bureaucracy. We acknowledge that people are not daft and that some spotted opportunities but, on balance, they were outweighed by those who spotted difficulties or expressed concerns.

Mark McDonald: I am always intrigued by references to increased bureaucracy or arguments about the introduction of new regimes for which businesses would have to make adaptations, because huge numbers of businesses in Scotland are already located in more than one place. Some businesses have joint ventures or their own ventures in other countries and many businesses are looking to expand internationally. I presume that if the argument against devolution of certain fiscal measures is that it would create a bureaucracy to which businesses would have to adapt—or the perception of that—the same argument would say that no business should ever seek to expand internationally. Does that not ring true?

Colin Borland: There is no doubt that in the feedback that we got from members those that are already doing business internationally said that that is the sort of stuff that they deal with, and that those that do business very locally could not see how it would affect them. The big group that expressed concern was the businesses that trade within the UK and that have a lot of customers across the UK. When we asked about where the markets are, the biggest group were those that have suppliers and customers across the UK. For them, the proposals would be something new. An example that we have used is that, if I am based in Glasgow and have been down seeing customers in Manchester, when I am driving back up the M6 and stop at Southwaite services to fill up the car, what do I do with the VAT receipt? Those are the sort of practical questions that people think about. That big group of businesses were the ones that tended to raised those questions the most.

Mark McDonald: I am interested in the views of the CBI and Scottish Chambers of Commerce. I know a number of small businesses that have international links, but perhaps the CBI and SCC have companies that are doing business in multiple jurisdictions across the world.

Garry Clark: The majority of our members do not trade internationally. That notion about different roles and regulations in international markets is one of the key issues or perceptions that prevents them from trading internationally. We need to try to overcome that because it prevents businesses from becoming more internationalised. We are speaking to another Scottish Parliament committee about that. The possibility of being subject to different sets of regulation is something that our members are naturally apprehensive about. It would present a real cost to those businesses.

Nicola Walker: I agree with everything that Garry Clark and Colin Borland have said. It is easy to take each power and look at it in more detail and think that there are certain things that businesses could do to make administration easier. However, when we start to think of the cumulative impact of the changes, businesses—especially those on the smaller and medium side—start to get a bit rattled. They start thinking about whether they will have to set up a new payroll system as a result of changes to income tax and what they will do with their VAT receipts if they are a significant collector. The cumulative impact of the changes rather than the individual powers sets businesses thinking about what devolution means in terms of cost and administration.

Mark McDonald: Jean Urquhart touched on the areas around employment regulation and the minimum wage. I am curious about the response from the CBI about potentially putting businesses at a competitive disadvantage. We have had a discussion about whether devolution of certain taxes would allow businesses to have a more competitive framework and the response was that infrastructure around Scotland would be more advantageous. We now seem to be hearing that paying people a living wage might put businesses at a competitive disadvantage. Do you care to outline which CBI members cannot afford to pay a living wage, given that there are many CBI members that have chief executive officers on six-figure salaries, plus bonuses?

Nicola Walker: As I have already said, we believe that it is not for the CBI, the Scottish Government or the UK Government to mandate a living wage. We have a process for setting a minimum wage, which is based on evidence of economic trends and is therefore an affordable and sustainable way to set a minimum wage. Where companies can afford to pay the living wage, they do. It varies hugely by sector.

Garry Clark has already alluded to the fact that in some sectors those marginal increases can be the difference between taking on more people and laying people off. It is as simple as that. In some sectors it is much easier to absorb such rises. That is just the way it is. A huge increase in the minimum wage, or the mandatory introduction of a living wage, would have the impact of potential job losses in some sectors. It would not be across the board, but some sectors are more sensitive to such wage differentials.

Mark McDonald: What is your view on income tax devolution and the tax devolution proposals of the Smith commission? We have gathered that the CBI does not favour devolution of air passenger duty. What is your view on income tax?

Nicola Walker: CBI members are a lot more relaxed about the prospect of devolution of income tax. They can see the driver for devolution of income tax in terms of narrowing the fiscal gap and increasing accountability, as members of the panel have already mentioned.

Some very technical questions remain unanswered about how the proposals would work in practice. It is hoped that the draft legislation tomorrow will start to answer some of those questions, but I am not sure that that will be the case. There are issues such as how income tax would work in conjunction with national insurance contributions. What would it mean for pay-as-you-earn systems? Would companies working across the border have to set up separate payroll schemes? What about enforcement? Who would have jurisdiction over what, and what role would Her Majesty’s Revenue and Customs continue to play? However, there is very little negativity about the idea itself.

Mark McDonald: What is the view of Scottish Chambers of Commerce and the FSB about the income tax proposals?

Garry Clark: We took a broadly neutral view of the devolution of further powers on income tax, largely because the Scottish Parliament already has a notional power over income tax and further powers will come into force next year as a result of the additional powers in the Scotland Act 2012.

We do not yet know the full implications of the devolution of income tax. Many businesses are prepared for it; some are probably still unprepared for it. Most of our members are fairly relaxed about the prospect of the changes that are coming in anyway next year. Smith’s proposals go beyond them but they do not necessarily complicate the issue too much more. As Nicola Walker said, the changes increase the revenue available to the Scottish Government, which gives it more freedom to look at tax revenues more widely and revenues that have already been devolved for some time, such as business rates.

Importantly, because income tax will now be one of the areas in which the Scottish Government could derive significant benefit in terms of overall revenue growth in Scotland, the Scottish Government, and the Parliament more widely, will need to look at policies on issues such as procurement. Clearly, if a greater percentage of the procurement budget of public bodies throughout Scotland was spent domestically here in Scotland, with Scottish businesses, and if more small and medium-sized enterprises were involved in that, we could potentially increase the revenues through income tax, which would be a good thing.

Mark McDonald: I was about to point out that you had said that it gives the opportunity for increased revenues. There are two ways to increase revenues: one is to put income taxes up and the second is to create more jobs in the economy. I think that you have given the answer in relation to that issue.

Procurement is looked at closely. I appreciate that we have not reached Colin Borland’s response yet but perhaps this question can build into it. Do you see job-creating powers within the basket of powers that are coming? Are there powers that are coming to Scotland that you would identify as powers that will help the Scottish Parliament to create jobs within the Scottish economy?

Garry Clark: Businesses create jobs within the Scottish economy, and anything that helps businesses to do that is welcome.

Colin Borland: As I said before, we broadly support the principle of income tax devolution. It makes sense, particularly when the Scottish Parliament already has responsibility for nondomestic rates, which are of course counter-cyclical, with all the advantages and disadvantages that that entails. Having a tax take that is more closely tied to the health of the economy balances out that situation nicely. We think that it is probably a positive move.

It will not surprise you to learn that our chief focus is on the practicalities, particularly for small employers. As we made clear to the Smith commission, and as I have said repeatedly, we applaud the way that the Scotland Office, the Scottish Government, the Department for Business, Innovation and Skills, HMRC and the Treasury have taken forward the implementation of the 2012 act. That has been a model of how these things should be done. In fact, even before the commission reported, we said, "If you are going to recommend further devolution, we strongly advise the continuation of that implementation process."

10:30

There is the question of not having separate tax returns and doing a lot of the administration through HMRC software, and putting the responsibility on HMRC for determining who is a Scottish taxpayer. That also applies with regard to liability: an employer should not be liable if they have an employee who is pretending to live in one jurisdiction and is in fact ordinarily resident in another.

The debate will focus on the practicalities of how we progress all those elements between now and the implementation of the recommendations. The changes resulting from the 2012 act are quite modest in comparison with the Smith proposals, and it has still taken us a long time to get to this point—and we will have another big job in communicating to small employers exactly what the changes will mean. The fact that all those things are happening is useful, however, because it will perhaps be less of a big step to implement the Smith changes, although I am not pretending for a second that it will be easy.

Mark McDonald: Sure. One would anticipate that the behind-the-scenes administrative changes that will be required to move from the Scottish rate of income tax to whatever comes out of the Smith commission's proposals will be done in the same spirit.

I will ask one final question, because I know that the convener wants to move on. We have discussed the Smith proposals, and the CBI has identified some of the elements that it would have preferred not to be included. Is there anything that is not currently included among the proposals that any of you or your members think should be in there?

Colin Borland: The Smith commission has gathered evidence from across the country, and the politicians have come together and done a deal. Our job now is to focus on how to implement the proposals and make them work. We are not taking a massive interest in what is in them and what is not. Our focus must be on how we implement the proposals in a way that is not to the administrative and competitive disadvantage of small employers in particular.

Garry Clark: I agree with a lot of that. The only area in which we would have liked to have seen something stronger was immigration, which we mentioned earlier. Immigration is addressed in the Smith proposals, and we will work strongly with the UK Government to ensure that it takes the proposals forward. However, the Smith recommendation in that respect is certainly not a proposal for devolution, and we need to progress the issue with the UK Government.

With the exception of that issue, I agree with everything that Colin Borland said.

Mark McDonald: What is the CBI perspective?

Nicola Walker: The view from our members is that what is on the table represents quite an ambitious agenda. There are things that we might not want to see, but our focus now must be on implementation and getting back to business as normal, and on giving business a little more certainty about the view as we move forward. It is not the time to think of new proposals to add to the basket.

Richard Baker (North East Scotland) (Lab): One proposal that was floated before the Smith process was the notion of devolving corporation tax with a view to cutting it, but there has been a surprisingly lukewarm response to that idea in the submissions from the panel. The CBI does not support the proposal; Scottish Chambers of Commerce is neutral on it; and the FSB does not mention the area specifically. Is it another one of the areas in which—for a sizeable number of your members at least—the issue is multiple systems? Is that the concern that lies behind your scepticism on that proposal?

Colin Borland: The first point to remember is that most of our members are not incorporated, so they do not pay corporation tax anyway. For us, the much bigger issue is with personal taxation and income tax, and that is where our focus was during the Smith process. There was not a great response when we surveyed our members on corporation tax.

Richard Baker: So the point that cutting corporation tax would stimulate the Scottish economy, particularly by giving it a competitive edge over the rest of the UK, did not come out as a general point from your members, whether they are incorporated or not.

Colin Borland: No, the point was trying to differentiate between whether something should be devolved to Scotland and what we would do with it once it was devolved. We were very clear that we were going to leave that stuff at the door because, although we have a Government of one political complexion at the moment, that may change. We were instead trying to look for things where we could say that taking a particular decision at a particular level would in itself be good for the Scottish economy, which is why we ended up saying that the Smith commission should concentrate its efforts on things that are directly analogous to the health of the economy and economic growth.

Richard Baker: That leads me on to my second question, which is on the more general issue of the broader level at which decisions should be taken. The Smith process on fiscal devolution has focused principally on the dialogue between Westminster and Holyrood. That is understandable, but there is another important tier of decision making, at a more local level—empowering local authorities and local agencies. Have we had enough discussion about what further powers could be devolved from Holyrood to a more local level in terms of the important decisions that can be made more locally in relation to stimulating growth and business activity? Does Scottish Chambers of Commerce have any thoughts on that debate?

Garry Clark: Looking back—and touching on your first question, as well—I note that corporation tax is an issue that we revisited a number of times. I remember submitting a report to the committee back in 2011, when the 2012 act was going through its initial stages, and returning to that issue during the course of the referendum. For our members, corporation tax was usually the number 3 or 4 issue when it came to taxation. It was consistently outweighed by business rates and income tax, which are more important areas for our members' businesses.

Business rates are usually the number 1 issue for our members. There is a local implication with that tax in terms of the way in which rateable values are assessed and rates are charged. For us, therefore, there is potentially something in the debate about business rates in which we could look at more local solutions. The Scottish Government has been attempting to do that over the past few years, with the local business rates incentivisation scheme, which is now in its second incarnation. We are certainly hoping for more from that. Anything that we can do to stimulate local economies across Scotland, potentially utilising a tax that is rated by our members as the number 1 concern, may be an area for further local decision making.

Richard Baker: Do you have any further thoughts on that, Colin? We have not seen the BRIS implemented operationally yet. Is there more for us to say on the debate about local decision making?

Colin Borland: Yes. If we look at planning, licensing, local roads and so on, it is clear that local authorities are our members' biggest regulators and actors on their business. The place of local government in Scotland and its importance to local economic development is probably a debate that we should have been having for the last 15 years.

Several people today have asked whether it is true that a rising tide lifts all boats, why some people get left behind, what the issue is and what has happened over the last 40 years. We have to look quite closely at local economies, at how they work, and, in some cases, how they do not work. Local authorities have a real role to play.

Local authorities are now in charge and take the lead on local economic development, but they have many other calls on their budgets and time. It is the same sort of question that we ask about what happens at a Scotland-wide level. How do we incentivise a local authority to take decisions that are in its long-term economic interest when there are so many other competing pressures?

For all the challenges around BRIS and the legitimate questions about how business rates work, there has to be a way to ensure that, if a local authority takes sensible long-term decisions that are in the interests of local people, jobs and businesses, it will be rewarded for doing so.

On how that will be done, I am quite looking forward to our debates on the Smith report and its implementation. I think that paragraph 95 of that report talks about how to do the adjustment to the block grant correctly. Many of the things that we will learn from that about additionality and baselining, for example, are completely outwith my sphere of expertise—such as I have to accept that I have—but they will be very useful. I think that we will learn a lot from that, and we can use the lessons elsewhere, particularly with local government.

Gavin Brown (Lothian) (Con): When I have spoken to businesses in December and January post Smith reporting, the main message that I have received from them is that decisions have been made, Smith has reported, we should stop talking about what should or should not be devolved, and we should start to get on with implementing the decisions that have been taken. Is that roughly what your members are saying to you?

Colin Borland: Yes.

Nicola Walker: Yes.

Colin Borland: As I said before, the politicians have come together and got a deal that looks broadly sensible, and the challenge now is to get on and focus on implementing it.

Confidence has taken a dip and there are worries about consumer confidence, but if you ask our members what their priorities are for the year ahead, more of them will talk about capital investment and making investments in the longer term. We are looking forward to maybe a difficult start to the year but quite a strong 2015. Bluntly, that is where our members' attention is at the moment.

Gavin Brown: With that in mind, I turn to your submissions. The phrase "balanced against ... administrative burdens" comes up and we are asked not to adversely affect business in what we do. We know what the Smith report says and what is coming.

On the implementation of the Smith report, without getting overly technical, what are your members saying to you about things that we really need to think about or avoid and the traps to be wary of? Obviously, there are obstacles and we will face challenges—we have heard about some of them in the committee—but are there specific challenges that ought to be highlighted and that we should start to think about now?

Colin Borland: Yes. In addition to what I said before about income tax and extending the 2012 principles, it is interesting to look at the assignation of the first 10 percentage points of VAT. We have asked the Treasury whether that is VAT on production or consumption. Is it related to the sales that I make here to people throughout the UK, or is it the stuff that people here buy—where the sale is made? We have been assured that there will be some estimate of the Scottish VAT take and things will be taken from there. I imagine that the details of how that will work out will be subject to pretty detailed negotiations.

We have been very clear that we do not want to fill in a second VAT return, and we do not want to play private detective running about the country trying to find out where customers are ordinarily resident. Members saw the difficulties that we had with some of the European Union rules that came in on 1 January relating to online sales and finding out where customers are in the EU. That is a practical example of something that we need to avoid. I am very pleased to say that, when we made representations to the Treasury on the matter, it assured us that the intention is absolutely that such a system will be avoided, but that is the sort of thing that we will keep an eye on.

Gavin Brown: I will stick with Colin Borland for a moment. You have made your VAT point. The primary concerns are about whether the VAT is on production or consumption and avoiding a second return. On other taxes such as income tax and APD, are there are any specific issues that ought to be highlighted at this stage?

Colin Borland: On income tax, my strong view is that the model that we have spent the past couple of years developing with the 2012 act and the work that we have done under that should be taken and extended, particularly with respect to the user experience. That is a horrible phrase; I mean how things look from the small employer's end.

We have to keep the principles that we are not responsible for finding out who is and who is not reading legislation and finding out under the ordinary residence test who is or who is not a Scottish taxpayer. That has to be done by HMRC. Again, we should keep that principle; I do not see why we would not.

We also need to ensure that the collection systems are kept under HMRC and that we are not doing a separate Scottish tax return. Again, that is going to be done under the 2012 act and I do not see any reason why we could not keep that principle. We are looking at those sorts of things.

10:45

Gavin Brown: I will ask the CBI a similar question. What are your members saying to you about what they know is coming? Are there specific things that they are concerned about or see as obstacles that we need to think about?

Nicola Walker: There are concerns about some of the implementation issues on VAT and income tax that Colin Borland has already gone through. Other than that, there is the issue of compensation or reimbursement for English airports that the Scottish Government might incur in relation to the UK Government for switching off APD, which the Smith report alludes to. A lot of our members would be interested to understand how that might work.

Certainly the issues that Colin raised on VAT and income tax are the biggies.

Gavin Brown: I ask the same question of Scottish Chambers of Commerce.

Garry Clark: I think that Colin Borland summed up the situation very well. We spent a long time with UK Government people in the wake of the 2012 act looking at the implications that it would have for income tax and how payroll software and so on would handle the changes. A lot of payroll software was set up back in 1999 to deal with the Scottish variable rate.

Taking on the 2012 act, we need to make sure that businesses are well prepared and well set up to deal with all of the new changes when they come in over the next few years, starting next year. It is important for us, as we are a Scottish business organisation and most of our members are based in Scotland, but we are also thinking about businesses based in other parts of the UK that have employees who will be subject to this tax, and we must ensure that their awareness levels are as high as they possibly can be. We have had some conversations with members who are based in other parts of the UK but have Scottish taxpayers on their payroll about ensuring that they are able to integrate the changes smoothly into their systems.

John Mason: I am interested in the CBI's comments on corporation tax in its written submission. On the one hand, you suggested that you like to have a level playing field and for things to be as simple as possible, but you also say:

> the UK having the lowest headline Corporation Tax in the G20 ... has sent a positive message abroad that the UK is 'open for business'.

A simple system would be one level of corporation tax for the whole of the EU, but you quite like it if one regime has a lower rate than another.

Nicola Walker: The important thing is that we make the UK as competitive as possible. Having the lowest headline CT rate in the G20 helps to do that. In terms of simplicity, it is not feasible to assert that we should have a single rate across the whole EU. We are talking about the UK and the powers that the UK Government and the Scottish Government might have. I suggest that the EU is an issue for another day.

The strong message from our members is that they value having a single CT regime within the UK. It is helpful from an inward investment point of view. The simplicity of having a single regime combined with a very low headline rate is very attractive.

Our smaller and medium-sized businesses are also keen not to go suddenly from being UK-only firms to being what are in essence international firms. If you started to implement different CT regimes within the UK, you would be forcing companies that are working across borders within the UK to change their internal practices to mirror something like an international regime. They feel that that is overly bureaucratic and a huge administrative ask.

John Mason: I take the point that we are not concentrating on the EU, but I am interested in the logic. You put a lot of emphasis on being evidence based, but it seems to me that the evidence that suggested that it is simpler for a company to have one rate of corporation tax within the UK would also have suggested that it is easier to have it throughout the EU. Have you done research with your members on that?

Nicola Walker: The key thing is that we are talking about UK firms being competitive vis-à-vis the European firms as well. Having a low headline rate in the UK makes UK firms very competitive and makes the UK very attractive for inward investment from the EU.

John Mason: What do you do if one of your Scottish members says that it would like to be more competitive by having a lower rate of corporation tax? How does the CBI handle that?

Nicola Walker: The CBI seeks views from across its whole membership. As I mentioned earlier in relation to APD, there are always going to be issues on which some of our members might have different views from the majority. However, in the case of corporation tax, the majority of our members value having a single headline rate. What is happening in Northern Ireland has brought this issue to the fore. There are certain CBI member companies in Northern Ireland that have actively lobbied for the devolution of corporation tax to Northern Ireland because of the specific geographical challenges that they face vis-à-vis the Republic of Ireland. That is an example of where the view on the ground—the view of some Northern Ireland businesses—has stood in contrast to the view of UK firms as a whole.

John Mason: The submission is headed "CBI Scotland". Is it just the view of the CBI in Scotland or is it the view of the CBI in the UK?

Nicola Walker: The submission was pulled together taking into account views from CBI Scotland members, but certainly CBI UK members share those views.

John Mason: Are there any issues on which the CBI in Scotland and the CBI in the UK disagree?

Nicola Walker: I have to say—hand on heart—that no, there are not.

John Mason: So I might as well read "CBI UK" at the top of the submission.

Nicola Walker: That is your choice, but the submission was pulled together taking into account views from our Scottish CBI members.

John Mason: I find it very surprising that CBI members in Scotland never take a different view from the UK members, but there we go.

Nicola Walker: Let me just clarify. In terms of the proposals that are on the table—the Smith agenda—the views of CBI Scotland members were aligned with the views of CBI UK.

John Mason: On the question of business taxation, Scottish Chambers of Commerce does quite a lot on business rates. Is it your feeling that there has been a concentration of business rates because the Scottish Parliament does not have control of any other business taxes, especially corporation tax? Would it take the pressure off business rates if we had a basket of taxes, including corporation tax, to play around with?

Garry Clark: I certainly think that having additional revenue other than business rates might make it easier for the Scottish Government to be more flexible in the operation of business rates in Scotland. As far as our members are concerned, I am not even sure whether all of them recognise that it is a devolved tax. I do not think that they are raising the issue just because it is the only tax in the box as far as the Scottish Government is concerned. We have raised it in the context of the referendum debate over the past two years; we asked businesses, "What is your number 1 issue in this referendum debate?" and consistently the number 1 taxation issue has been business rates.

Whether or not there is a recognition that business rates currently sit with the Scottish Government, it is fair to say that they are the number 1 issue for our members, given what they feed back to us. Corporation tax is further down the line. We have taken a neutral stance on that, because we recognise that a number of our members are attracted by the prospect of a lower rate of corporation tax in Scotland; equally, however, it is a tax that does not affect all our members by any manner of means. Business rates are far more applicable to more of our members.

On the operation of corporation tax, we have had a number of representations along the lines that Nicola Walker has suggested about the bureaucracy that would be involved in the apportionment of profits throughout the UK, which currently does not need to happen. Therefore, there is also a bureaucratic argument against devolution of corporation tax.

John Mason: In principle, would your members prefer something such as corporation tax, which is based on the profits that they make, rather than something such as rates, which are based on the property that they hold?

Garry Clark: Any holistic system of taxation will tackle different aspects. I suppose that it will tackle property, because it is easily targetable and it is easy to collect the tax, but it will also look at things such as profitability. For personal and business taxation, any basket of taxes will target different areas of operation and resource. The complication that we have is that, with the devolved settlement, property tax sits in one place and profit taxes sit somewhere else.

Our members might look at the Smith proposals on the revenue side and think that they might allow the Scottish Government to do more with business rates than it has been able to do thus far. Clearly, with the prospect of reduced corporation tax on the one hand and the actuality of a 28 per cent increase in business rates since the last revaluation in 2010, some rebalancing of business rates is needed.

John Mason: Mr Borland, is that less of an issue for you? You said that quite a lot of your members pay only income tax, so corporation tax would not have such a big impact.

Colin Borland: Yes, that is correct. The majority of our members are not incorporated, so that is not an issue. The reason why we focus on taxes such as income tax and VAT is that they are a good yardstick for the health of the economy. Although we do not set ourselves up as amateur economists, there is an argument that the corporation tax take is not as directly tied to the health of the economy—or rather the indigenous business base—as taxes such as VAT and personal income tax.

John Mason: Ms Walker, would your members prefer to be taxed on their profits or their properties, or do they just accept both, as Mr Clark said?

Nicola Walker: They accept the reality of the tax regime. In thinking about corporation tax vis-à-vis business rates, we must think about the mobility of the tax base. Obviously, with business rates, the tax base is not so mobile. In talking about devolution, you have to think about what you are seeking to achieve and whether you hope to drive inward investment. To be honest, businesses will pay the tax that they are required to pay.

Colin Borland: I agree absolutely that we need a system of business taxation that reflects how we do business in 2015. We would not want to exclude property from that, because of the issues with mobility. At the same time, we need to ensure that the system reflects things such as turnover, profitability and the ability to pay. Should the proposals come to fruition, we would have both sides of the house, if you like. We would have the stable and countercyclical property-based tax base along with the side that is directly linked to the health of the economy. Having those under one roof might make it easier to have the debate about how we reform the system. Everyone agrees that, although what we have might be the least worst option at the moment, it probably does not reflect the economy and the way we do business today.

John Mason: Richard Baker asked about further devolution down the way. Would you be relaxed if there were 32 different business rates throughout Scotland, if we stopped planning appeals and all planning decisions were made entirely at local level or if all licensing was decided locally? Would you be comfortable going in that direction?

Colin Borland: That is exactly the sort of stuff that we are going to look at in a lot of detail in the next year or 18 months. We do not have a position on the specific points that you raise, but we are attracted to the principle that, if a body is responsible for economic development, it should have to take decisions in a way that can generate economic growth and it should see the benefits of that or the detriment if it takes the wrong decisions. There are an awful lot of issues that we can begin to explore to see exactly what to do.

That comes with the obvious caveat that we do not need 32 sets of rules about, in essence, the same thing. Work has been done here on regulation and how we harmonise it. The Regulatory Reform (Scotland) Act 2014 was a significant and unheralded piece of legislation. With that obvious caveat, the answer is yes, if we are going to look at how we regenerate these economies, because over the past 30 or 40 years, no matter what we have done—chasing foreign direct investment or whatever—it has not really worked.

11:00

John Mason: We have spent quite a lot of time—and I do not want to spend much more on it—on the minimum wage. I accept that you are all speaking as employer organisations, although I suppose that a small business might not have any employees. Do you only look at such a question from the point of view of whether the business can afford it, or do you also look at it from the point of view of whether a person can afford to live on the wage?

Colin Borland: The health of small businesses is intrinsically linked to the health of the local economy. At the end of the day, though, we have to keep the lights on, keep a roof over our head and make sure that the numbers add up.

Wage rates and what is happening on them were discussed earlier, and we do take them seriously. Businesses' other input costs are on their way down—global prices and all the rest of it, which are issues that we know a lot about. One of the key drivers of increasing costs at the moment is staff costs, which are increasing even if head count is not necessarily increasing. That suggests that we are doing our best to pass on savings whenever we can.

I reiterate that we applaud the work of the Low Pay Commission, which has been a success. It has taken politics out of the process completely. Whether something like that should be devolved to Scotland or regionally could certainly be argued.

John Mason: When you say that it has taken politics out of the process, do you mean that it has taken politicians out of the process?

Colin Borland: Yes. For example, rather than the Chancellor of the Exchequer or the Scottish finance secretary saying, "Today, I'm going to bump up the minimum wage to this level," the Low Pay Commission is evidence based. It takes what it hears from employers and from sectors—

John Mason: Is it evidence based on what people can live on or evidence based on what businesses can afford to pay?

Colin Borland: Its statutory duty is to set the wage at the highest possible level, without it affecting job numbers.

John Mason: So it does not take account of whether people could live on that.

Colin Borland: No. However, if you reduce the cost of employment that number will increase. If you look at the direction of travel, with things such as the £2,000 employment allowance for national insurance, you will see that we seem to be going down that road. We are very comfortable with that, because the more savings we get, the more affordable it is to employ people and the higher that number can be.

John Mason: Mr Clark, do you have a view on that? Are you speaking for the employers and not taking account of what employees think?

Garry Clark: Clearly, we are a membership organisation and we speak principally on behalf of our members. There is a wider issue regarding some of the issues that we touched on earlier. When the economy has been driven principally by consumer demand, as it has been over the past couple of years, the economic health of those consumers is important to businesses. When the economy is driven by consumer demand and real wages are falling, that creates a tension that could make the economy unsustainable.

That is one of the reasons why I am very pleased that our recent surveys have shown that businesses are increasing investment. Actually, we have noticed a dip in productivity, which has been due in many cases to businesses investing in staff training. That is very healthy, because that training will make staff more productive, and more productive staff will be able to generate more revenue for businesses which, ultimately, we hope, will mean that their wage levels increase.

Over the past quarter, we have detected some pretty broadly based increases in wages. That is positive for our economy and for our society

John Mason: Ms Walker, you have used terms such as "affordable" and "economic". Do you always use those words from the point of view of employers?

Nicola Walker: The CBI, like Garry Clark's organisation, is an employers' organisation. It, too, is a membership organisation, so it is our job to represent our members' interests. Equally, those interests do not sit in isolation. The Low Pay Commission takes an evidence-based approach. It considers issues such as inflation trends, so it thinks about whether employees can live on the suggested minimum wage.

John Mason: It takes that into account.

Nicola Walker: Yes. From our members' perspective, the wages issue is not only about what employers can afford but about what employees can live on. For example, members have in recent years been supportive of changes such as the increase in the personal allowance; they have called for the reduction of NICs to ensure that employees are taking home more pay; and, as Garry Clark alluded to, they have focused on creating good, sustainable careers paths by investing in training and upskilling their workforce, so that people move off the minimum wage and do not spend their whole lives at that level and see a career path in the companies.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): We have covered the various fiscal powers comprehensively. You all seem broadly supportive of Smith. What other changes need to take place for the successful implementation of Smith? Scottish Chambers of Commerce made the interesting suggestion that the committees must improve their performance. Perhaps Garry Clark wants to comment on how that would help with implementation; perhaps not.

The other issue that I have in mind is the whole role of the Scottish Fiscal Commission and whether that needs to be developed as the Parliament gains more fiscal powers.

Garry Clark: Smith has outlined processes for the engagement that must take place between the Scottish and UK Governments to work out all the principles that we considered earlier relating to what knock-on effect increasing or reducing tax and spending will have on the overall UK economy and what will flow back to the Scottish Government as a result.

Those processes will need a huge amount of co-operation and understanding between the Scottish and UK Governments. If that does not take place and if the relations between the two Governments are not as effective as they might be, it is a recipe for disaster and conflict. Where the two Governments are working together hand in hand to ensure that we know as far as possible what would be the outcomes of any changes to legislation in Scotland, there is potentially a lot of benefit to be had from making changes in Scotland that will increase the ability of our businesses to compete and increase the overall strength of our economy.

The Scottish Parliament's committee system needs to step up its game because a lot more detailed scrutiny of the measures will need to take place. Indeed, the considerations will be far wider than they have been in the past 15 or 16 years.

Colin Borland: I always think that the committees are wonderful. [*Laughter*.] What Garry Clark says is absolutely right. Some of the changes will be in the bill; we will be able to make other changes under subordinate legislation. An awful lot of it will rely on proper co-operation, communication and agreement—whether that is through a memorandum of understanding or however you want to do it—between Holyrood and Whitehall.

To underline what Garry Clark said, I say that we cannot have a situation whereby there is a row every autumn statement about what the tax take might have been and how much the block grant should be reduced and so on. We need to know how that would be done and we need to get that agreed. That would allow you to plan what money you have to spend and how you will spend it; it would also give us a better idea what the tax rates would be and any other obligations that would be placed on us.

Nicola Walker: I absolutely agree with that—the clear view of CBI members is that they want to avoid a duplication of approach and that there must be coherent policy making.

I agree with all that Garry Clark and Colin Borland said. The two particular relationships that have interested our members most are those between the Scottish Fiscal Commission and the Office for Budget Responsibility, in their on-going work on fiscal consolidation, for example, and between Revenue Scotland and the HMRC, in ensuring that our tax implementation powers are joined up.

The Convener: That has exhausted the committee's questions. As none of our witnesses has any further points to make, I thank them very much for answering all our questions. I also thank members for putting those questions to the witnesses.

I suspend the meeting until 11.20 to allow a changeover of witnesses and to give members a break.

11:11

Meeting suspended.

11:20

On resuming—

The Convener: We will now continue our consideration of further fiscal devolution by taking evidence from Edward Troup and Sarah Walker of HM Revenue and Customs. Members have copies of a briefing note and a progress update that HMRC has provided. Before we go to questions, I welcome both our guests to the committee, and I invite one of them to make a short opening statement.

Edward Troup (HM Revenue and Customs): Thank you and good morning, convener. It is good to be here again. Since I was last here, quite a lot of activity has been going on. The committee has our report.

As ever, we are focused on delivering the provisions of the Scotland Act 2012 for which we are responsible—in particular the Scottish rate of income tax. Relationships with our colleagues in the Scottish Government and Revenue Scotland remain good, and we are happy with the progress that is being made.

We are concerned to achieve a good delivery of the project. Depending on what happens with the Smith commission proposals, we might find ourselves involved in further implementation. Getting this project right means setting the scene, and it will teach us lessons that we hope that we will come to use in future years, as and when the Smith proposals become law.

The Convener: You might have noticed that there have been a few changes to the committee since you were last here. You know the drill: I will ask opening questions and we will then go round the table.

The first thing that I will discuss is your annual report, which we discussed back in May 2014. We heard:

> "We will not have a quote from our IT suppliers for the IT changes until later this year, so we have specified as closely as we can the non-IT elements."—[*Official Report, Finance Committee*, 14 May 2014; c 4160.]

Your most recent submission makes no reference to the quote from information technology suppliers that was expected later last year. I wonder where we are with that.

Edward Troup: Are you referring to our information technology supplier and to the work that we need to do to prepare?

The Convener: Yes.

Edward Troup: I will hand over to Sarah Walker, although I hope that I will not spend too much of the meeting doing so. The committee has heard from her before—she is responsible for the practicalities of the programme and is a lot closer to the facts of the matter than I am.

Sarah Walker (HM Revenue and Customs): We have been talking with our IT supplier and we have clear estimates for parts of the work. We will publish updated estimates of the overall cost in the next annual report, which we will produce before the general election, so it will be available a little earlier this year than before.

The IT delivery is split between changes to our mainframe systems for PAYE and self-assessment and changes to our digital systems, which allow taxpayers to access details of their tax affairs online. A separate element involves ensuring that we make the right changes to the systems that deal with returns from pension schemes for relief-at-source pension contributions.

This is quite a complex area that involves different parts of IT implementation, not all of which are part of the main IT supply arrangements. We are still confident that the work will be within the range of £10 million to £15 million and we will give a new estimate in the next annual report.

The Convener: You have almost pre-empted my next question. The report said that

> "the cost may be higher than the previous £10 million estimate"

but below £15 million. Do you have any information to indicate how close the cost might be to £10 million, as opposed to £15 million?

Sarah Walker: I would prefer not to give a figure at this stage, but a figure will be in the next annual report.

The Convener: So the figure could be anything from £10.1 million to £14.9 million.

Sarah Walker: Yes.

The Convener: Let us discuss the accuracy of the address data. In May, HMRC said that it was still working on that. Your submission says:

> "HMRC has continued to develop the approach to identifying Scottish taxpayers and this will be finalised over the next few months."

However, in December, a press report stated:

> "The HMRC risk register in October, which has been released under freedom of information, has issued a 'red alert' warning when it comes to identifying Scottish taxpayers ... HM Revenues and Customs' tables reveal that identifying taxpayers has been moved from an amber warning in January to red alert over the summer, where it remains."

We have the risk register table, which lists the amber and red risks. I recall that Gavin Brown asked a number of questions about what it meant. There are concerns about the identification of Scottish taxpayers. Where are we with that?

Edward Troup: You used the phrase “red alert”. I would push back slightly on the use of the word “alert”. We are using a well-developed and familiar risk management framework. We look at particular issues with reference to the magnitude of their potential impact on the programme and the probability of their happening, and we assign them a red, amber or green level. That helps us—like any programme manager—to focus resources and activities. The fact that something is green does not mean that we are not looking at it; it just means that it does not need the immediate attention that something that is red needs.

The rating for a particular item is a combination of the potential impact and the probability. If something that could have a relatively low impact on the project was moderately likely to happen, it could end up as amber or even green.

If we did not do the identification of the Scottish taxpayer population right and did not get a high level of accuracy of identification, that would have a significant impact on the whole project. Although the potential impact is high, we do not think that the probability is particularly high. However, when we take account of the probability and the impact together, that gives the identification of the Scottish taxpayer population an overall risk measurement of 18, which is in the red zone, so it is a red risk. That is the background.

I will distinguish between the rating that is given to individual risks and our view of the programme as a whole, which we regard as being very much on track. We are confident that the SRIT will be delivered on schedule in April 2016. Having one or more red items in a risk register is entirely normal; in a sense, it is reassuring, because it shows that we are focusing continuously on the areas into which we need to put resources.

As for the specific risk—on which I gave evidence to the Treasury Committee of the UK Parliament before Christmas—we do not have the power to compel people to notify us of changes of address; I do not remember whether I told you that previously. Therefore, we cannot be completely confident that our register of names and addresses is 100 per cent accurate and nor can we be confident that our programme of communication and publicity over this year will tease out all the individuals whose addresses have changed. In effect, those are the risks that are reflected in the risk register.

We have been considering the use of third-party data that we can calibrate against our data to identify individuals for whom there is a mismatch between our record of their address and that in other data sources. That would improve the overall database’s accuracy. That is the mitigating action for the risk.

Since the risk register was prepared, we have made progress. Sarah Walker might want to say a bit about where we have got to with using the electoral register as a third-party source of data, on which progress has been made in the past couple of days.

11:30

Sarah Walker: We have all along recognised the need to supplement the address data that we have with external sources, if we possibly can, as Edward Troup said. In the past few days, we have decided to use the electoral register as a reference point for a major exercise to scan our existing address database for the whole UK against the addresses of people who appear on the electoral register in Scotland. That will give us a good estimate of the accuracy of our addresses, and it will also give us a potential list of people who live in Scotland but do not have a Scottish address on our system.

That will give us an additional level of assurance on top of the basic proposal, which is that we write to all the people we currently think are living in Scotland and conduct an extensive publicity campaign in Scotland to ensure that people realise that, if they live in Scotland and do not get a letter from us, they need to ensure that we have their up-to-date address.

The Convener: I heard what Mr Troup said about the amber and green colour-coding system. When you were last here, you said:

> “An amber/green, as I said, is about as good as we can get. In effect, it says that the project is going well.”—[*Official Report, Finance Committee*, 14 May 2014; c 4166.]

I understand what you have said about focus, but the forecast is that six of the 14 risks will still be on amber, and one would have thought that the forecast would be for all 14 to be on green.

Edward Troup: I acknowledge that there are some ambers, but the risk register would not be doing its job if everything was on green. In any project that involves systems, people, stakeholders, communication and a lot of taxpayers, there will always be issues. I am confident that the overall project will be delivered, and the risk register is in no way saying that it will not be.

I am looking down the list and trying to pick out one of the amber items as an example—there is a risk that I will pick the wrong one. I will take the second item, which is the first amber one on the list. It states:

> “There is a risk that—the Project team has insufficient controls to manage costs which may result in final costs exceeding budget tolerances.”

I would be unhappy if we came back at some point and found that we had in effect exceeded a budget tolerance. We are seeking to manage that. The committee can see from the list that that risk does not prejudice the project as a whole. I am confident that we will manage it down and will get there but, if we ended up with it still at amber at the end, that would in no way say that we were not delivering on the project and getting it right. It would say that on one element—managing our costs within our tolerances—we had not got to where we wanted to be.

As I said, I am confident that we will get there, but I picked that example because it shows that I cannot sit here and promise that, by the time we get to 31 March, all the ambers will be green. The project would be unusual if that were the case, but we are working hard to get all the risks as green as possible.

Gavin Brown: So that I can understand better the forecast point, what does the word "forecast" mean in terms of time? Is it the forecast for the next monthly report or the next quarterly report? I assume that it is not a forecast for April 2016, so is there a timeframe?

Edward Troup: Each risk has a timeframe that is relevant to the risk. In effect, identification remains a risk down to the point at which we have identified taxpayers, but I hope that we will manage it to green well before that. Some of the risks are shorter term, because they relate to elements of the programme that are on a shorter timescale or because the risk—such as the risk that we have not recruited the right people—spans a matter of only days or weeks. The register is not a forecast over a period; it is a statement about each of the issues that we have identified as relevant to the programme and which we must deliver accurately and well to get to the overall delivery of the Scottish rate.

The Convener: I open up the session to colleagues around the table. The first question is from Mark McDonald.

Mark McDonald: I will stay on this issue to begin with. We had a discussion recently about risk registers and the identification of risk. You have pointed out that there is a combination of probability and impact, and the impact often has the higher score on a risk register—or we hope that that would be the case.

When you look at the forecasts, I presume that you look at managing down the probability. I imagine that the impact remains fairly static for most of the risks. If something is a high-impact risk now, it will remain a high-impact risk, and the element that you are looking to manage is the probability. Is that a fair assessment?

Edward Troup: That is right. If you read the current risk register closely against the previous one, you will see that we have taken off one or two risks because we think that we have exercised the controls that were needed to eliminate the risk. In a sense, they remain in the background, but they are not at a sufficient level to need any degree of active control, which is needed once something makes it to the risk register. However, the impact of all sorts of factors remains, whatever that is, so long as the issue is there.

Mark McDonald: My next comment is not just about your risk register. Many of the risk registers that I have seen have the same issue, which is that there is no disaggregation of probability and impact. Somebody who saw a risk score of 18 on your risk register would assume that there was a high risk of that event happening, whereas the high risk score might come from the impact—if something happened—rather than the likelihood of it happening. The register—if it is released, as this has been in response to a freedom of information request—might not contain the information to make the distinction clear.

Edward Troup: That is entirely right. I am not sure whether you were implying that you wanted more disaggregation in what we release. I come here to be as helpful as I can be to the committee, but there is a point at which we cannot expose the day-to-day working of our teams in the department and what is going on, as that would get in the way of effective working. If you feel that more information is needed on specific issues, I am happy to look at the scope for sharing that information. You will appreciate that, in general, we share our high-level risks where we can, but there are sensitivities.

Mark McDonald: I appreciate that. I do not seek to speak for the committee, but understanding where the probability versus the impact is in the scores would be helpful. If I see a red score, my interest is in whether it is red because it is likely to happen or because, if it happened, the impact would be significant. An explanatory note might be a means of going forward, but I will leave that as something that the committee could discuss.

Edward Troup: I am happy to say that the risk that was mentioned—it is red, and the committee has rightly drawn attention to it—is a high impact and a medium probability at the moment. Our view is that that score will come down over the next month or two because the work that Sarah Walker talked about is already giving us comfort that we will manage down to a low level the probability of a significant misalignment on our Scottish taxpayer register. I am happy to provide a further note but, equally, I am happy to tell you that now, and I suspect that a note would not say much more than I have just said.

Mark McDonald: I note that the on-going work is in relation to the Scotland Act 2012 and the powers that will come from that. We do not know what the further legislation will look like—I think that the draft clauses will be published this week.

Edward Troup: The chancellor announced yesterday to the Treasury Committee that that would happen tomorrow.

Mark McDonald: So there will be some indication of what is likely to come.

Given the timescale for implementing the 2012 act, what are your thoughts on the further taxation powers, whatever they are? Will the timescale for them be roughly similar, or does the current work give you a much stronger platform to build on for implementing the further powers, so they could be implemented in a much shorter timescale?

Edward Troup: Obviously, I will not speculate too much about what will happen legislatively. There is a bit of a hypothetical question about what we would do if the Smith provisions were legislated for in broadly the form agreed.

What we have done on the Scottish rate will be a firm platform for the further Smith proposals on income tax. As we have just discussed, and as you have seen, a large part of the work is in setting up the identification of Scottish taxpayers, setting up our systems so that they recognise Scottish taxpayers and setting up the payroll capability to allow for different rates for Scottish and English taxpayers. The implementation of further changes to rates and bands will definitely be easier, and we will be able to introduce them more quickly, because we will not need the careful lead-in time that we have needed for the current provisions.

I would not want to say how quickly we could implement such changes. The constraining factors always tend to relate to systems. I know that this sounds slightly mad, but we have more or less finalised the self-assessment returns for the year 2015-16 with the IT suppliers, which implies that self-assessment changes take 15 months or more to bring in. That in itself is a constraint on change. However, that is not to say that some changes cannot be introduced more quickly or that there cannot be some messy ways of working around the constraints.

By the time we get to the point of legislating for the Smith proposals, we will have a clearer sense of what other actions are required. The chancellor made it clear yesterday that sorting out the fiscal position and the block grant adjustment will be a major factor. I hope that HMRC's system constraints and our requirements will not get in the way of delivery to the political timetable, and I agree with the proposition that it will be possible to deliver the further provisions more easily and quickly than the current provisions.

Mark McDonald: You have spoken about the systems, and that was where I was going to go with my final question. Are you confident that the systems that you are implementing now, both for the IT and for monitoring the accuracy of the data that you have, will be able to adapt to any new taxation framework that is put in place as a result of the Smith proposals? I realise that that is asking you to pin a tail on a donkey, as we do not know exactly what the legislation will say, but are you confident that there is flexibility in those systems? Given all the expenditure on new IT systems and so on, will the systems be adaptable, or will you have to unplug them all to put in something new in a couple of years' time?

Edward Troup: I hope that we will not have to unplug them. It is not for me to ask questions, but I have to ask you and your political colleagues at Westminster whether you are confident that the provisions will be implemented as they appear in the legislation. There is always uncertainty about what will happen when legislators get to grips with the detail of legislation. Nevertheless, in terms of what is in Smith, I am confident that our systems can cope with what might reasonably be done in relation to income tax, by which I mean changes in the basic and higher rates, not the creation of 25 different tax bands. I am confident that we can implement such things without, as you say, having to unplug all our existing systems and start again.

Mark McDonald: Thank you.

John Mason: The tables that we have in front of us are taken from your overall risk register. Am I right in saying that not all the risks are in these tables?

Edward Troup: As we did when we disclosed the previous version, we have made a small number of redactions of risks that relate to commercial and third-party arrangements. The terms of FOI exclusions allow us to make such redactions when disclosure of the risks would prejudice our ability to deal with those third parties. I would rather not go into the details of that, but I reassure the committee that—and I repeat what I said before—I am confident that the project will be delivered. I do not think that you would find anything in the small number of risks that have been redacted that would cause you concern.

To pick up Mr McDonald's point, my recollection is that those are not high-impact risks. However, they are risks in relation to which we are concerned about probability. Is that right? [*Interruption*.] Perhaps I should hold on that. I put a slight caveat on the record on whether I have got that right.

11:45

John Mason: Can you tell us anything about the system? Is there a committee in HMRC that looks at the full risk register?

Edward Troup: As you know, there is an extensive governance process for the whole implementation process. We have our internal programme board—Sarah Walker sits on that for us with representatives of the Treasury. We also have a board above that with representatives of Revenue Scotland, the Treasury and HMRC. The ministerial committee is above that. The risk registers are looked at within that structure, and our internal boards go through them in detail with the Treasury. They would flag up to the board that works with Revenue Scotland any material issues that would get in the way of implementation.

John Mason: I am not sure whether this issue is entirely in your area, so correct me if I am straying off limits. On the timing of tax coming in, obviously traditional stamp duty land tax does not all come in during the tax year; I presume that, as with all taxes, it comes in gradually over the months that follow. Are you involved in that? Do you measure it?

Edward Troup: I may be able to help you, but I am not quite sure what the question is. Stamp duty land tax is a more real-time tax than self-assessment, for instance.

John Mason: I am sorry. I have strayed and got myself confused.

Income tax comes in gradually over time. Do you measure how much income tax comes in during particular years?

Edward Troup: Yes. Our colleagues in the knowledge, analysis and intelligence directorate monitor flows. Obviously, we monitor revenue flows for a variety of reasons. First and foremost, we monitor them because our colleagues in Her Majesty's Treasury are quite keen to know how much cash is coming in. We report monthly—in fact, December's figures will be published tomorrow. Obviously, we monitor them for our own internal management purposes, because a lot of our activity is devoted to compliance work—that is, to achieving tax payments that would not have taken place without our intervention—and understanding what tax is coming in through our compliance and intervention work is very important for measuring our own performance. We measure because doing so gives us useful data about what is going on with the economy and the tax system, and it gives us broader management information.

We measure and forecast, and the published forecasts are signed off by the Office for Budget Responsibility, but we do most of the leg work on forecasting, and the analysis is done internally within HMRC.

John Mason: Thanks.

Malcolm Chisholm: I think that you said that you cannot compel taxpayers to tell you about a change of address. Is that the only issue? Do you know the address of everyone who pays tax, but not when they change their address, or do you not know the address of everyone who pays tax?

Edward Troup: I will let Sarah Walker speak to the details of that. I certainly would not say that we know everybody's name and address. Obviously, there are people who deliberately choose to be outside the tax system, people who have simply failed to update their information for whatever reason, and people who change address for reasons that are nothing to do with tax but who do not want anybody to know that—there could be a marital dispute, creditors or whatever. Therefore, at any point in time, we are absolutely not 100 per cent sure that we have accurate names and addresses for everybody. We are not 100 per cent sure that we know who everybody is. There are individuals whom we refer to as ghosts in the hidden economy—effectively, they just stay off the radar. There are also people whom we know about whose affairs are chaotic, either accidentally or deliberately. That is simply inevitable when one deals with tens of millions of individuals.

Sarah Walker may want to say something about what we know and how we verify.

Sarah Walker: We have addresses with a proper postcode for, I think, more than 98 per cent of taxpayers. What we do not know is whether those addresses are up to date. Those are the addresses that we use for correspondence. If we need to send someone a tax code notice, for example, we have an address that we can send that to. However, there will be examples within that of people who have left home, say, but who still have things sent to their parents' address—there will be all sorts of perfectly good reasons why they have not bothered to give us their current address, because they can still pick up post from us. This will be the first time when your tax status actually depends on where you live, and that makes it more important for us to ensure that a person is actually living at the address that we have on our system. Further, we will have to know the date on which someone changes address, because Scottish taxpayer status depends on where someone has lived for the majority of the year, which means that the date on which someone changes address will often be relevant to their Scottish taxpayer status.

Malcolm Chisholm: I want to ask about the prediction of income tax receipts. I understand that you have quite an important role to play in that regard with the OBR. Could you say something about that?

Edward Troup: Yes. As I said, our knowledge, analysis and intelligence unit does that work. It collects the data—it has access to all HMRC data—from which it will measure what is happening and make forecasts of what is going to happen. Since 2010, when the OBR was created, the formal forecasts of revenues, the public finances and, indeed, the economy have moved from the Treasury to the OBR. At the two forecasts in the year—one at the autumn statement and one at the budget—the OBR will engage closely with our colleagues in order to put together the forecasts. They are OBR forecasts, but they are based, in terms of the underlying data, almost entirely on material that we provide to it.

Although the OBR has been praised for its independence, from our perspective, the process feels very much the same as it was when the Treasury was doing the forecasting—we had the same conversations with colleagues in the Treasury, and the Treasury would make those forecasts. Both then and now, it is HMRC that provides the underlying data and the first cut of the forecasts for discussion.

Malcolm Chisholm: From your point of view, would it be a problem if you were doing that work with a Scottish body, such as the fiscal commission, which would develop its role in relation to income tax?

Edward Troup: Currently, we forecast the shares of the various revenues for Scotland. In the past year, we have published a breakdown of past receipts and forecasts for all four devolved Administrations and the other areas in the UK. I am not quite sure what you are getting at when you ask whether we would be prepared to discuss forecasts with the Scottish fiscal commission. The answer would be yes. Would we be willing to do forecasts for the Scottish fiscal commission? That is a slightly different question. I would not like to say no, but I do not think that we would have any obligation to provide forecasts for it at the moment.

Malcolm Chisholm: So you already provide forecasts for the various parts of the UK—is that what you said?

Edward Troup: Yes.

Malcolm Chisholm: Do they come out via the OBR, or do you do them on your own?

Sarah Walker: The OBR forecasts Scottish devolved taxes, based on our work.

The Convener: Just to follow on from Malcolm Chisholm's question, do you also do forecasting for the stamp duty land tax?

Edward Troup: Yes, absolutely. We have forecast all revenues.

The Convener: That concludes our questions. Do you have any points that you wish to make?

Edward Troup: No. I am glad to be here and to be able to report positively. I understand the concerns about the risk register and I want to reassure the committee that, although I am happy to talk to you about those points, we have a good dialogue with Revenue Scotland about progress, so the implementation of the two taxes this year and the introduction next year of the Scottish rate of income tax will be as smooth as possible for taxpayers. That is important because it is keeping the taxpayers happy that ensures that tax keeps flowing. We are all focused on that.

The Convener: We agreed to take the next items in private. I therefore close the public part of the meeting.

11:55

Meeting continued in private until 12:20.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

For details of documents available to
order in hard copy format, please contact:
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@scottish.parliament.uk

e-format first available
ISBN 978-1-78534-752-8

Revised e-format available
ISBN 978-1-78534-765-8

Printed in Scotland by APS Group Scotland