



OFFICIAL REPORT  
AITHISG OIFIGEIL

DRAFT

# Public Audit and Post-legislative Scrutiny Committee

Thursday 27 April 2017

Session 5



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Pàrlamaid na h-Alba

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**Thursday 27 April 2017**

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**PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE**  
**11<sup>th</sup> Meeting 2017, Session 5**

**CONVENER**

\*Jackie Baillie (Dumbarton) (Lab) (Acting Convener)  
Jenny Marra (North East Scotland) (Lab)

**DEPUTY CONVENER**

\*Liam Kerr (North East Scotland) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)  
\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)  
\*Monica Lennon (Central Scotland) (Lab)  
\*Alex Neil (Airdrie and Shotts) (SNP)  
\*Ross Thomson (North East Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Caroline Gardner (Auditor General for Scotland)  
Gordon Smail (Audit Scotland)  
Mark Taylor (Audit Scotland)

**CLERK TO THE COMMITTEE**

Terry Shevlin

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Public Audit and Post-legislative Scrutiny Committee

Thursday 27 April 2017

*[The Acting Convener opened the meeting at 09:00]*

### Decision on Taking Business in Private

**The Acting Convener (Jackie Baillie):** Good morning and welcome to the 11th meeting of the Public Audit and Post-legislative Scrutiny Committee in 2017. Please make sure that you switch off electronic devices, or switch them to silent mode, so that they do not interrupt the meeting. Under agenda item 1, the committee is invited to take items 3 and 4 in private. Do members agree to do so?

**Members indicated agreement.**

## Section 23 Report

### “Managing new financial powers: an update”

09:01

**The Acting Convener:** Item 2 is oral evidence on the Auditor General for Scotland’s report entitled “Managing new financial powers: an update”. I welcome to the committee Caroline Gardner, the Auditor General for Scotland. I also welcome Mark Taylor, assistant director, and Gordon Smal, senior manager, both from Audit Scotland. I invite the Auditor General to make an opening statement.

**Caroline Gardner (Auditor General for Scotland):** Thank you, convener. The Scottish Parliament’s financial powers are changing substantially. The Scotland Act 2012 and the Scotland Act 2016 devolve new responsibilities for taxes, social security and borrowing. Implementing these new financial powers is a huge and complex programme of work.

The report before the committee today examines how the Scottish Government, Revenue Scotland and the Scottish Fiscal Commission are implementing or preparing to introduce the new powers. It also looks at how the Scottish Government is developing its public financial management arrangements in that context. My report assesses progress to February this year since I last reported on the area in December 2015.

The Scottish Government has made some good progress by getting the foundations in place for managing the new powers. It has updated its structures for overseeing them, has good programme management processes in place and is establishing arrangements to share data with the relevant bodies. I am also pleased to report that the transition of the Scottish Fiscal Commission to a statutory body is being managed effectively, and Revenue Scotland is making good progress in preparing for further devolved taxes.

The scale of the change needed to implement and manage the new financial powers is significant. There will be substantial changes in the type and volume of work that the Scottish Government does, which will have major staffing implications. The Government is currently identifying the staff and skills that it needs, but recruiting enough people with the required skills may well be difficult.

At the end of 2015-16, £18.5 million had been spent on programmes to implement the new financial powers, and set-up costs will increase significantly over the next four years as the

Government takes on its new social security responsibilities. The Government needs to build a clearer picture of the potential future costs and plan how it will fund them within its budget.

Establishing the new social security arrangements is an exceptionally complex task and will require detailed plans. The Government's programme to deliver those arrangements is in its early stages but, once its approach is more established, it should share its proposals publicly. That will help support scrutiny and provide the public with more information in this key area.

Overall, the powers in the Scotland Act 2016 are moving the public finances into new territory. Once fully implemented, half of what is spent in Scotland will be raised in Scotland and the budget will be subject to greater uncertainty and volatility than ever before. In that changing environment, a more strategic approach to public financial management and reporting is needed. This includes a medium-term financial strategy, based on clear policies and principles.

The Scottish Government is developing its approach to financial management and it now needs to finalise and publish its principles for using the borrowing and reserve powers. It is also taking steps to provide a more comprehensive picture of the public finances. It is important that the Parliament and the public have the information that they will need to understand and scrutinise the Government's financial decisions.

Convener, as always, we are happy to answer the committee's questions.

**The Acting Convener:** Thank you very much, Auditor General. Do you have any comments on the Scottish Government's response?

**Caroline Gardner:** I do not think that we have any specific comments at this stage.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Auditor General, I want to clarify one thing in my mind. The tax-raising element of the new powers that we talk about comprises various taxes, such the landfill tax, which are raised in Scotland and handled here. Other, larger taxes, such as VAT and income tax, are collected centrally and then allocated back to Scotland on a notional basis, according to what our share is believed to be. Is that a correct interpretation?

**Caroline Gardner:** That is right. The devolved taxes—the landfill tax and the Scottish land and buildings transaction tax—are currently set and raised in Scotland. The new air passenger duty and the aggregates levy will be set and raised in Scotland. However, income tax will be set in Scotland and raised by Her Majesty's Revenue

and Customs, and we will be assigned a share of the VAT that is raised United Kingdom-wide.

**Colin Beattie:** It is important to keep the distinction between that which we raise and that which we are allocated. One of the things that I am concerned about is the cost of setting all this up. There is an allocation of £200 million from the UK Government, but in paragraph 14 on page 11 of your report, you say that the belief is that it will cost more. Do we have any idea of the pressure points that will result in more cost? How was the figure of £200 million reached? Was it just taken out of the air as being a reasonable figure, or was it based on some calculation?

**Caroline Gardner:** Two hundred million pounds is the figure that is contained in the fiscal framework agreement that was reached last spring between the UK and Scottish Governments. It is fair to say that the figure was simply agreed between the two Governments as what they thought was reasonable.

I ask Gordon Smail to give you a bit more information about where the Scottish Government is on its planning for the future costs of implementation.

**Gordon Smail (Audit Scotland):** It is right to highlight that as a key element of the new set-up and its costs, and to understand the cost of implementing the new powers. The short answer is that there is not a lot of information available—that is one of the key points in the report. We have a pretty good fix on the spending to date and the amounts that are included in last year's budget and in this year's budget, but details beyond that are not available to us. The Scottish Government has identified an amount that is included in the 2017-18 budget, but when the budget was produced, there were no underpinning figures for that. We do not know the detailed breakdown.

One of the key elements in the report is the importance of being cost aware—of identifying and monitoring what has been spent. Although information is available at an individual project and programme level, there is less aggregation, so one of the report's recommendations is that there should be an ability to oversee, at the highest level, what the total spend is.

**Colin Beattie:** So when the £200 million figure was set, there was nothing behind it; it was just a figure that they decided was reasonable. There must have been a basis for it.

**Gordon Smail:** As the Auditor General said, it came out of the negotiations as part of the fiscal framework. I do not have any further information on the basis for it. At the time, the Scottish Government said that it would not be sufficient and, as we say in the report, that is what it told us, too.

**Colin Beattie:** Where are the main pinch points going to be? For example, in paragraph 23 on page 14, you say:

“Additional budget has been allocated to develop the size and skills of the finance team.”

That is one relatively small area, but where is the money going to be spent and where will we see that budget overrun?

**Gordon Smail:** Over the past couple of years, we have seen a build-up as the devolved taxes and some of the other elements have come into play, but the significant areas are in the social security arrangements as they start to come in. The bulk of the money that has been set aside in the current year’s budget is for social security implementation. As you would expect, the key areas there include developing information technology systems to support the new arrangements, and new staff coming in to manage the programmes and to help formulate policy and overall delivery of the new arrangements.

**Colin Beattie:** The social security side is looming rather large at the moment. Will the systems and the management and so on for that be completely within the Scottish Government, or will they be delegated down from a central pot? I hope that I made that clear.

**Gordon Smail:** Yes. I understand where you are coming from, and Mark Taylor may be able to add a bit more detail about social security arrangements. We are saying in the report that it is right that the Scottish Government is taking its time to understand what it wishes to achieve through this. It has started to give indications of what its proposed models and the options for that might be, but the detail of what that will look like is fairly light on the ground at the moment. We are saying in the report that that is a fair position to be in because it is a big, complicated job—probably one of the biggest jobs that the Scottish Government will have to do.

As to the costs, the more the Government understands what it wishes to achieve, the better the information it will have. What we are recommending in the report is that in all areas, including social security, there should be a much clearer idea of what the costs will be. It is a difficult area and it is new to everybody, but there is a need to have a close look at what the costs might be so that at least there is a starting-off point, a conversation about where the costs and the spending will be, and a basis to go back to for monitoring later. That is also an area of the recommendations.

**Colin Beattie:** Given that the Government has already said that the costs will exceed £200 million, it must have a fair idea of where the overruns are going to be. It must have done at

least something on the back of an envelope to say, “We will go over in these areas.” Somebody somewhere must have a grip of that.

**Gordon Smail:** It is difficult to say on the basis of the evidence that is available to us. We know the amounts that are included in the budget for 2017-18, and that is set out in the report. What we do not have is a breakdown of the detail of that. There will have been some consideration as the Government put its budget together for 2017-18, but, in terms of the information that is available to us and to the public, an important element is transparency about what the costs might be so that people can understand the very questions that you are asking of us this morning.

**Colin Beattie:** You have mentioned the aggregated costs. Do you think that there is anybody in the Scottish Government who has a grip of the aggregated costs? You would think so if it has ready worked out they are going to be in excess.

**Gordon Smail:** There will have been work and calculations to bring forward the amount that is included in the budget, but we do not have the details of that. The report says that there is an understanding of the costs of individual programmes and projects, but we have seen less evidence of that aggregation and of oversight by the structures that are set out in the report—the fiscal framework implementation board. There should be oversight of the totality of the amounts to be spent, so that there is an understanding of what it will cost and, importantly, so that people can be held to account for the budgets that have been allocated.

**Colin Beattie:** Is that a flaw in the process, or is it simply inevitable at this stage that we do not have that information?

**Gordon Smail:** It is more to do with where we are with the programmes. If you go into a bit more detail, there is good information available, for example, about what Revenue Scotland has spent on implementing the two devolved taxes that are currently in play. There is something about the evolution and the understanding of these new arrangements. We are at the stage where there needs to be a much better idea of what the costs will be, particularly in these big, new, complicated areas, such as social security, which allows more scope for better management of the costs as they are incurred and for oversight, so that people are held to account if and when things happen to go away from budget.

**Liam Kerr (North East Scotland) (Con):** I have a very quick point on a matter arising from that. In paragraph 55 on page 23, you talk about the Scottish rate of income tax, and I want to clarify what you are saying for my own understanding.

You mention that HMRC has estimated that the annual running costs of the SRIT—which I understand are reimbursed by the Scottish Government to HMRC—will increase to around £5 million if the Scottish rate is different. Could you explain that for me, please?

**Caroline Gardner:** I will kick off, and Mark Taylor may want to give you a bit more detail. As we confirmed in response to Mr Beattie's question, although the Scottish Parliament and the Scottish Government have responsibility for setting all the rates and bands for non-savings and non-dividend income tax, it will continue to be collected as part of the overall HMRC systems. HMRC has been of the very clear view since this was first discussed that the costs of collection will be lower for it if the rates and bands are the same in Scotland as they are in the rest of the UK. If they are different, HMRC will need to make changes to its IT systems in order to collect the correct amount of Scottish income tax from each of the relevant Scottish taxpayers. There may be additional costs in communication, compliance and the other elements of the costs of HMRC. The £5 million is its current estimate of that. We show in the report how the estimates have changed since the Scotland Act 2012 came through, but I think that that is the best current estimate that is available.

**Liam Kerr:** Is there a de minimis level for that? How different does the tax rate have to be, or is it just that, if there is any variation whatsoever, the finance secretary will have to budget an extra £4.5 million?

**Caroline Gardner:** I think that that is a question you would want to explore with the Scottish Government and HMRC when you take evidence from them. My assessment is that there probably is a level where there is a cost to any change and the more significant the change, the greater the cost may be because of the compliance issues, but HMRC is better placed to respond to that question.

**Ross Thomson (North East Scotland) (Con):** On page 13, halfway through paragraph 17, the report says:

"The Scottish Government will need to develop more detailed cost estimates and refine them as policy decisions are made about how to implement and deliver certain powers."

Then you give an example. For clarity, when do you expect to see that level of detail? Is there any kind of suggested timeline for that?

09:15

**Caroline Gardner:** We set out the timeline for the devolution of the new social security powers in exhibit 6 on page 26. You will see that there is a phased implementation running up to 2021, with

some discretion for the Scottish Government on what it intends to do. There is a trade-off between the extent of the changes that it wishes to make and the time that it will take to do that. As 2021 is not very far away, we think that having more clarity soon would be valuable for Parliament's ability to scrutinise but also for the quality of the Government's plans. Gordon, do you want to add to that?

**Gordon Smail:** No, I think that that covers it, along with what I said to Mr Beattie earlier.

**Ross Thomson:** On page 14, paragraph 23 starts with:

"Individual directorates and programmes are also identifying the staff and skills they need to implement and manage the financial powers in the Scotland Acts."

Paragraph 24 says:

"The Scottish Government recognises the significant staffing implications of the new financial powers and the challenges it faces in recruiting staff with the skills it needs."

Do we have any estimate as to how many staff will be required and, in your view, how significant are the challenges for that recruitment?

**Mark Taylor (Audit Scotland):** The short answer to the question is that there is no specific estimate of the additional staff who will be required. The Government's approach at the outset is to think about the range of work that it is doing, where its priorities are and how it can allocate and reallocate staff to those priorities. Alongside that is a need in some areas to bring in additional skills, new skills and a broader range of skills. The Government has commenced and is progressing that programme of work and that will continue. As we say in the report, it continues on a project-by-project, department-by-department basis.

As additional needs are identified, a case for those will be considered and made within the Government's overall plans for staffing. One of the key elements of that is related to the cost question. As decisions are made and as clarity is reached over how individual things will be implemented, the key elements for the Government are these: who are the people we need, how do we get them, and do we have that capacity at the moment or do we need to add to that capacity?

On the overall question, I think that we are quite clear on the scale of the task here. One of the key questions for the Government is the extent to which it can be absorbed within current resource levels and the extent to which additional resources in the civil service need to be deployed for this activity. A key part of that is the model that is adopted for social security and the resourcing requirements for that. The Government made

some commitment to announce its plans in that area in the spring this year. There is a statement planned in the chamber this afternoon that may or may not give some clarity about that.

As those things are decided and as that is worked through, some of the answers to those questions will become clear. What we are clear about in the report is that there is a need to do that and there is a need to have the high-level figures that emerge from that for costs.

**Ross Thomson:** On page 19 of the report, paragraph 42 reads:

“One of the biggest challenges facing the transition programme is the recruitment of enough staff with the right skills. Recruitment campaigns that ran from September to December 2016 did not fill all posts on a permanent basis, including the chief executive.”

Could you explain, if you have the detail of it, what the recruitment campaign was and why the commission was not able to fill the posts as it had hoped?

**Gordon Smail:** Recruitment is a crucial element of establishing the Scottish Fiscal Commission, which is a very important component of the new devolved financial arrangements in Scotland.

One of the staffing challenges—to pick up on Mark Taylor’s point—is that the Fiscal Commission needs skillsets, such as forecasting and the like, that are new to Scotland. I understand from speaking to the commissioners and officials that they were quite surprised by the positive response to their recruitment campaign. They set out on the basis that they knew they probably would not get everything they needed the first time round, so they had pretty good contingency plans in place. Taking what they were able to achieve through the recruitment exercise, alongside drawing on officials from the Scottish Government, we are of the view that, as of this month when the commission takes up its new statutory role, it will have what it needs to perform its function and will be able to build on that for the transition to its own staff in due course.

Based on the evidence that we have had, our sense is that the commission is pretty well placed to be able to deliver on its new activities. More work is needed to bring leadership to the Scottish Fiscal Commission by establishing a permanent arrangement for a chief executive. The transition arrangements under the new deputy chief executive are working well, so there is leadership, but there is a balance between having proper leadership, which we believe that the commission has at the moment, and allowing a new person to come in and do what he or she wishes to do in taking the Fiscal Commission forward.

In summary, the commission is in a good position now, but there is a bit more work to do to

get it fully established in the way that the commissioners would like.

**Ross Thomson:** I come from a region in the north-east where we struggle to recruit in the public sector in a variety of areas. Not being able to have a full staff complement, especially on something new like the commission, could really hold you back. How high is the risk of not being able to recruit to all the necessary posts?

**Gordon Smail:** The commissioners were quite pleased with the response that they had and with the calibre and backgrounds of people. People feel that they would like to be involved from the start in this new area of work, and we see that in other areas, for example in Revenue Scotland. This is new stuff that does not happen very often and there is a real desire to be part of it, so there is that confidence as well.

We probed recruitment as part of our audit work, because it is so vital to the work of the Fiscal Commission, and we heard from officials and the commissioners that there is confidence that they have what they need to deliver the important function that the statute expects of them.

**Ross Thomson:** Paragraph 42 of your report mentions an interim chief executive and an appointed interim deputy chief executive. From my experience on Aberdeen City Council, I know that there is usually an additional cost to having someone who is interim or covering a post. Has there been any additional cost to having somebody fill in in the interim, rather than someone permanent?

**Gordon Smail:** I do not have that detail to hand, but it is part of the transition. The commission went out and looked for a permanent chief executive and was not able to recruit someone, but it is important in these circumstances that you get the right person for the job. It is not a case of just filling a post; it has to be the right person who sets the right tone and provides the right leadership for the organisation. I do not have the detail of the cost, but the fact that there is not a permanent chief executive in place suggests that there is budget capacity to support the existing leadership in the Fiscal Commission.

**Ross Thomson:** I appreciate that. I know from Aberdeen City Council that when we cannot recruit directors, for example, we usually have to pay over the odds for someone from an agency to fill the post. I am not sure whether this case is similar.

**Gordon Smail:** I think that the commission has been able to find the right people through existing channels to carry it through. The current interim chief executive comes from a civil service background and, as we say in our report, they have taken the commission to a good place to be ready to deliver from April.

**Ross Thomson:** My last question is about paragraph 31, on page 16 of your report, which says that

“Ensuring a smooth transition of powers from the UK Parliament to the Scottish Parliament requires officials in the bodies involved to build and maintain effective working relationships.”

I agree with that. Is that included in your report because there is evidence to suggest that that has not been happening? I was not sure whether you had picked up on something to make you say that.

**Caroline Gardner:** No. We are simply reporting on the arrangements that are in place and their importance, given the interdependencies that are baked into the fiscal framework between the UK Government and the Scottish Government for making good use of the new financial powers. Our evidence is that those arrangements are developing well and the issues that have arisen have been resolved, including, for example, the initial block grant adjustments on the two devolved taxes.

If I have a comment to make it is that there is scope for more transparency about the working arrangements. As we move into a world where Scotland has control or oversight of more than half of the funding that it spends, it would be a bonus for the Parliament, and for Scotland more widely, to have more clarity about what meetings of the joint ministerial committees are planned and what has been discussed and agreed at them.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Thank you very much for your report. It is very helpful, thorough and positive. It provides a very useful framework for the scrutiny that will be required.

My question relates to the scrutiny landscape and what it might look like in future. As you note in the report, the new financial powers transfer about £22 billion back to Scotland. That is almost two-thirds of the current Scottish budget, so it is really important that we understand where the scrutiny will lie. We know that the Finance and Constitution Committee and the budget review group will look at the reporting elements in the Scottish Parliament, and I am delighted that this committee is also part of that process.

Can you give us a flavour of where you see the scrutiny taking place and whether this committee alone would be doing the bulk of that? I note from the diagram on page 13 that it is clearly the case that there are intergovernmental relationships. Where is the opportunity for Audit Scotland to participate in scrutinising that process and where is the opportunity for this committee to oversee and scrutinise what is going on there?

**Caroline Gardner:** You are absolutely right to identify that this is a very significant change in the

Scottish Parliament’s public financial management responsibilities, from a position where very recently the Parliament’s role was to agree how the budget should be spent, to one that is much more about how much should be raised, how it should be raised and what the priorities for investment are, both in capital and social investment terms. That was very much the thinking in establishing the budget process review group that was set up between the Parliament and the Government. I am pleased to be a member of that and to have a chance to play the views here into those deliberations. The key focus of the work so far within that group has been how to support parliamentary scrutiny in a way that is also workable and practicable for Government. We are seeing some thinking developing—it is included in the consultation report that was published in March—on how we can balance what will inevitably be a relatively constrained period for budget scrutiny, with much wider scrutiny across the financial year of what we are achieving and making sure that that is in the context of a longer-term financial strategy, as we describe in this report. That is real progress. The details will be worked through over the next couple of months, running up to the publication of that report and the Parliament’s discussion of it.

One of the issues that we and this committee have a particular interest in is that wavy line of devolution that Mr Beattie referred to earlier. We are moving from a world where the devolution settlement in the original legislation was very clear that if something was not reserved it was devolved, the Scottish Parliament had oversight of it, and I audited it and provided reports to the Parliament and this committee for use in scrutiny. Increasingly, for large parts of the budget—for income tax, VAT and some of the social security powers—that responsibility will be shared with UK Government departments that are and will continue to be audited by the National Audit Office and my counterpart the Comptroller and Auditor General. We are still working through how those arrangements will work in practice.

You might recall from your previous time on this committee that we have a starting point in place in the arrangements that were agreed for auditing the Scottish rate of income tax. They are a starting point, but they will probably not be sufficient to cover the whole range of new responsibilities. In areas such as the Crown estate and some of the other areas that are devolved under the 2016 act, we are at the starting point of thinking about whether there is still a relationship with the UK Government and what that means for this committee. That is work in progress, but it is an important issue for this committee to stay sighted on and to influence as those arrangements are developed.

**Willie Coffey:** I certainly remember the discussion about your involvement in the SRIT and the memorandum of understanding that is in place for that. Did you just say that that kind of role for Audit Scotland will apply to the air departure tax and the VAT component? Will you have a definite role in all of those to participate or even scrutinise what is going on between the two Governments?

**Caroline Gardner:** The things that are fully devolved are very straightforward. We know that the air departure tax will be administered by Revenue Scotland. I already audit Revenue Scotland, so I can report to you about the audit of that body as well as, through reports like this, on the overall process.

The arrangements will need to be developed to reflect the areas that are a shared responsibility. My view is that the arrangements that we have in place for the Scottish rate of income tax provide a useful starting point but they are not the full story. They will need further development. I can see that Gordon is looking to come in here, so I will invite him to add to that.

09:30

**Gordon Smal:** I was just going to agree that there is more work to be done.

**Willie Coffey:** On page 24, exhibit 5, which is on the SRIT, gives us a useful and positive breakdown of the costs, which have gone down from the initial estimate of about £45 million to about £30 million. That is welcome, but you note that the IT cost estimate has doubled from 2010 to now. I was looking in the report for further information about that. What is the reason for that increase?

**Mark Taylor:** The starting point is to recognise that, since this report was prepared, the Scottish and UK Governments have prepared a further annual report on their progress with implementing the new powers. That includes updated figures on the expected costs—they are essentially 2017 figures—and estimates IT costs of between £13 million and £17 million, so those costs would drop a little from the £20 million estimate but would still be above the initial estimate.

Our sense is that, over time, the project has focused more on developing the IT systems so that they can accommodate variations in rates that the Scottish Parliament may or may not decide on. There has been less of a need for work on the staff and communication sides, so decisions have been made to spend less on that. The balance has gone from the input of things such as people's time and advice towards spending money on getting the IT to work in a way that supports the new powers.

**Willie Coffey:** My last question is on the general scrutiny landscape. Auditor General, do you see yourself bringing us a report on, say, the VAT component one week and the air departure tax the next? That would allow us to keep a focus on the initial stages of the transfer of powers and on revenue raising to see clearly what we are dealing with. It might be important for the committee to focus solely on those aspects until they have bedded in and we can regard them as part of the whole pot that we will ultimately scrutinise. Do you see an initial separation so that the committee and the Parliament have clear lines of sight on the powers?

**Caroline Gardner:** My plan is to continue to produce for the committee a report like the one that we are discussing, around spring, to update you on progress with the overall implementation of the 2016 act, in addition to the section 22 report on the Scottish Government's accounts that comes to you in autumn each year. There will be two bites of the cherry on the big picture.

Beyond that, it might in some instances be appropriate to bring you a report on progress on a specific aspect of the powers or to ask you about the oversight that the committee and the Parliament want of some of the tricky areas that you asked about a couple of questions ago. We know that the Scottish and UK Governments have started to think about the accountability and audit arrangements. That thinking is at an early stage but, as it develops, it will be important for Parliament to have a chance to express its views on what it needs and expects in order to provide oversight and scrutiny of what will be significant powers and amounts of money.

**Willie Coffey:** That is helpful—thank you.

**Monica Lennon (Central Scotland) (Lab):** One recommendation in the report is that the Scottish Government should

“demonstrate publicly the progress it is making towards introducing a comprehensive account of Scotland's public finances”,

and you have helpfully set out some of the positive steps that have been taken. It is pleasing that there has been some good progress.

Paragraph 112 onwards covers the subject. You have said that the Scottish Government

“needs to be clearer what spending is aiming to achieve and how this contributes to the Scottish Government's overall purpose and specific outputs and outcomes.”

In what way does the Government need to be clearer? Will you expand on that?

**Caroline Gardner:** I preface my answer by saying that an important part of the budget process review group's work is to look at how the information that Parliament gets can tie the budget

proposals more closely to what they are intended to achieve. The starting point for any public organisation is that the purpose of raising taxes and spending money is not to make a profit, unlike a private company, but to provide services to people, and the purpose of those services is to improve the quality of life for the people who work and live here.

The Scottish Government was ahead of the pack in agreeing the national performance framework 10 years ago and setting the clear outcomes. However, we have not seen since then a systematic development of plans for reporting. For example, if an increase is expected in spending on education or health and social care, what outcomes does the Government expect from that and how will it report progress towards that, given that outcomes often take years or a generation to take effect? None of us on the budget process review group is saying that such reporting is easy to do, but it feels important to do in the context of the national performance framework.

As we move into a world where the Scottish Government can raise taxes and make other changes or investments with the intention of improving the relative performance of the Scottish economy, it should be able to use that ability to drive outcomes in a much more comprehensive and systematic way than in the past. This is about making the link between how money is raised and spent and what it is intended to achieve.

**Monica Lennon:** I see that the

“Scottish Government ... intends to publish a ‘tailored for Scotland’ 2016/17 consolidated account”.

The report says that that was under deliberation and that the commitment was to agree on it by April. Your report covered the period up to February. Will you update us on progress?

**Mark Taylor:** The response from the Scottish Government gives the most up-to-date commentary on where it has reached. We are comfortable that there is a real commitment to introducing such accounts. We recognise that plans are in place, but the job is not done yet.

It is helpful to read in the Scottish Government’s response that, despite issues about some of the standards for measuring roads in accounts, the Government is continuing with the plans and looking to implement them. There was a question mark over whether that might cause a difficulty with the Government’s plans, but we are pleased with the commitment that it has given to continuing to work towards implementation.

Such things are important because, given all the powers that the Auditor General has talked about and which we have been discussing, the whole

picture in Scotland increasingly matters. What is the extent of financial risk? What is the extent of opportunities to use the public finances across Scotland? Consolidated public accounts give one important element of that big picture. They do not do the whole job—they sit alongside other accounting and other reports—but they are an important element, and we value the Government’s commitment to moving towards them.

**Monica Lennon:** The Government has suggested a number of trial runs that would involve other groups and public bodies. Will you say more about that? How important is that approach and is it useful?

**Mark Taylor:** A key aspect is getting the buy-in. Such accounts will bring together information from across the public sector. A key part is explaining what that is for and how the process will work and getting the buy-in of other bodies. Having a pilot is a good way forward, although one issue is how long that will take—the momentum needs to be maintained to deliver the range of financial reporting that is needed now that the new powers are in place.

**Monica Lennon:** Are the trials under way? What is the timeline for them?

**Mark Taylor:** The discussion is about whether trials for the 2016-17 accounts would be possible, and the Government said in its response that it would explore that. That is not quite the same as saying that trials will happen; we hope that they will happen.

**Monica Lennon:** That is to be encouraged. As your report recognises, it is really important for the public to have enough financial information.

Willie Coffey talked about scrutiny, which is what we are all here to do. From the short time that I have been in Parliament, it is clear that it comes up a lot that people do not think that parliamentary scrutiny is robust enough. Will you touch on what some of the barriers to scrutiny are and what scope there is to change the approach to scrutiny and get better information into the system?

**Caroline Gardner:** I will kick off, and Mark Taylor may want to come in. As you can imagine, that question has loads in it. We have been thinking about the subject for the past three or four years as it has become clear how the financial powers would change.

For Parliament, there are the straightforward things that the committee has just discussed, such as having a fully consolidated set of accounts for the Scottish public sector, as we have for the UK Government as a whole. Such accounts include in one place everything that the Government owns

and owes, what it raises and what it spends, so that people can see the big picture. Most of that information is available at the moment, but you have to work quite hard to pull it together and make sense of it, which should be much easier for you.

Alongside that, we have talked about linking what money is spent on with what it is achieving, which is an important picture. In this new world, taking a longer-term view—of what has happened not just this year but over a period—that involves looking back and looking forward will also make a difference.

All of that is complex and complicated, but it is doable. The budget process review group has seen great examples of large and small Governments around the world taking such an approach. There is room to put in place significant improvements—some are quite short term and some are slightly longer term.

The engagement of people and communities is an important strand that has not had much attention so far. The budget process review group has been looking at things such as the open government partnership, to which the Scottish Government has signed up, and at other third sector initiatives—for example, citizens' budgets are designed to be simple to understand and to give people the big picture, although people can drill down using IT if they want to. The programme for government already includes the principles of community empowerment and participatory budgeting, and thought could be given to building on them and to how measures that are currently designed to work locally could work at the Scottish level, too. I suspect that some of that will take longer to do, but you are absolutely right to keep it at the forefront of the thinking about where we need to go.

**Monica Lennon:** It is clear that the Scottish Government is making a commitment to enhance financial transparency. I am thinking about other recent committee meetings at which people have said that they are committed to being open and transparent; that does not always materialise.

Delivery is absolutely key. Ross Thomson touched on workforce planning and recruitment issues, and Willie Coffey talked about the costs of IT systems. How confident are you that there will be the right people, the right skills, the right systems and the right approach in place to make sure that we get very clear financial reporting and increased transparency that would help all of us to scrutinise Government spending?

**Caroline Gardner:** I hope that it is clear from my report that we think that reasonable progress is being made, in the context of a very significant and challenging programme of work, and that

there are some real challenges that need to be addressed. I suspect that those questions are probably better addressed to the Scottish Government—if the committee decides to take matters forward in this way—in order to get under the skin of its confidence and the commitments that it wants to make to the committee for the coming months, as we head into its having the new powers for real.

**Alex Neil (Airdrie and Shotts) (SNP):** I have one short question. We have seen that HMRC underestimated the number of Scottish taxpayers by about 400,000, which has now been rectified. However, that begs a question about the reliability of figures. I want to ask specifically about VAT. VAT-assigned revenues are now going to be a large proportion of funding for the Scottish Government. My basic question is this: how robust is the calculation of the moneys that should be assigned from VAT, based on the first 10p of the 20p rate and the first 2.5p of the 5p rate? Is there a danger that we are seeing underestimation of that money by the UK Government? That would not surprise me.

**Caroline Gardner:** You are absolutely right that that is one of the key issues that need to be resolved. As with the Scottish income tax initially, the information that will be needed to assign VAT accurately has simply not been needed in the past. Both Governments have agreed that the overhead for collecting that information would outweigh its likely benefits, so the basis for allocation will be an estimate rather than hard data. The mechanism by which that estimate will be arrived at is still being negotiated. Mark—do you want to say a bit about progress on that?

09:45

**Mark Taylor:** The preparations for that are at a very early stage. Our understanding—this is reinforced by recent progress reporting by both Governments—is that a team has been put together and is looking at the matter, and an initial methodology will be worked up later this year. That will be the basis for developing the estimate and having a firm basis for moving forward. It is obviously a key ingredient of the system and there is a clear timetable for that to be done. One thing that we do know is that the figure will be estimated based on consumption—where money is spent rather than where businesses operate. There is a decision on that in the fiscal framework. Beyond that, it is about the Governments working together to work up the methodology and, as Alex Neil suggests, about the estimate being as firmly based and as well understood as possible.

**Caroline Gardner:** The only thing that I would add is that that seems to me to be a very good example of an area in which the committee and

the Scottish Parliament will want good audit assurance about the processes that are in place. We do not know yet how that will work.

**Alex Neil:** My immediate supplementary to Mark Taylor's contribution is to ask whether the committee will have a chance to comment on the methodology before it is adopted by both Governments. I think that we should have.

**The Acting Convener:** That would certainly be very useful.

**Alex Neil:** Here is a very good example. If a Scottish company is operating in Scotland, but is exporting a significant share of its production via Hull or Dover, for example, that could clearly have a major impact on the estimate of how much VAT it pays. VAT is not paid on exports, so would that be counted as exports? I am not expecting you to answer the question, but it is a highly complicated set of calculations and if we get it wrong we could be severely short-changed.

**Caroline Gardner:** You are absolutely right. That is an element of the fiscal framework that has still to be agreed and which potentially has significant implications for the Scottish budget. I know that when the fiscal framework was being agreed last spring, the then Finance Committee held a number of evidence sessions on progress and on the framework's content. I assume that Parliament will want to do the same as the additional elements are developed. The way in which the Parliament does that is for it to decide, but the interest is genuine.

**Alex Neil:** Acting convener, I presume that the Finance and Constitution Committee would be the lead committee, but there is an audit element in respect of ensuring that the methodology is robust, which is in this committee's remit.

**The Acting Convener:** Yes—I agree. The clerks could make sure that we do not overlap with the Finance and Constitution Committee, so we could express an interest in that area, and it would be helpful to put down an early marker.

**Liam Kerr:** Mr Neil made important points about the reliability of the figures and the risk of underestimating. I am concerned about the risk of overestimating. I see at page 9 a summary, "Timeline for new financial powers", with various figures in it. There are two figures that I particularly wish to focus on. The first is on land and buildings transaction tax, and it forecasts revenue for 2017-18 at £507 million. We have seen this week that there has been a study that questions the accuracy with which LBTT receipts have been gauged. How robust can we assume the figure of £507 million to be, given what we have learned this week?

**Caroline Gardner:** There are two elements to that. The first is that one of the messages we would like to leave with the committee is that, within the Scottish budget, there will inevitably be more uncertainty and more volatility than there has ever been. Regardless of how good the forecasting is, forecasts are not the same as reality. There will be a difference between the forecasts at the budget stage and what is in the medium-term financial strategy, and that will change over time.

The second element is that we are at quite an early stage in doing this for all the new taxes; the taxes themselves are either brand new or are different in subtle ways from what existed before. It is to be expected that there will be a greater difference between the forecasts and the outcomes than would be the case at a normal time—if there is such a thing anymore, which is a point for discussion—simply because the taxes are so new and people are still working out how to deal with them. Gordon may want to add more on the specifics of LBTT.

**Gordon Smail:** I will touch on an earlier conversation. One of the key elements in this is the role of the Scottish Fiscal Commission, which should provide increased assurance when budgets are being developed. As of April this year, the commission has statutory responsibilities that include preparing forecasts for the devolved taxes; it will provide independent forecasts alongside the Government's forecasts. That is a new part of the process that should provide a bit more assurance in respect of the taxes. I have nothing to add other than that. To replay what we say a number of times in the report, I say that this is a whole new set-up with new opportunities and risks attached to it.

**Liam Kerr:** I will follow on from that. I see that the Scottish Government has projected air departure tax. What assumption underlies that £326 million figure for 2018-19? Do you understand that forecast to be based on a straight 100 per cent flip from what is currently happening with air passenger duty to air departure tax, or does the estimate assume the 50 per cent cut that the Scottish Government is proposing is in play?

**Mark Taylor:** The straightforward answer is that it is the former of those two. That figure is taken from the "Government Expenditure and Revenue Scotland" figures. It is an estimate that has been prepared by the Scottish Government, as part of the GERS package, of what the current policy will contribute once the moneys are devolved to Scotland. The separate process is on decisions about the shape of the tax. Forecasts will flow from the process once those decisions are made.

**Liam Kerr:** I understand. Thank you.

**The Acting Convener:** I thank the Auditor General, Mr Taylor and Mr Smail very much for their evidence.

09:51

*Meeting continued in private until 10:08.*



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