



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 30 May 2012

Session 4

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FINANCE COMMITTEE
17th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Mark McDonald (North East Scotland) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Elaine Murray (Dumfriesshire) (Lab)

*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Beattie (Midlothian North and Musselburgh) (SNP)

Katie Hutton (Skills Development Scotland)

Danny Logue (Skills Development Scotland)

Doug Stoneham (HM Revenue and Customs)

Sarah Walker (HM Revenue and Customs)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Wednesday 30 May 2012

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning, and welcome to the 17th meeting in 2012 of the Finance Committee. I remind all members and everyone present to turn off any mobile phones, pagers or BlackBerrys.

Agenda item 1 is a decision on whether to take item 4 in private. Are we agreed?

Members *indicated agreement.*

Employability

10:00

The Convener: Under item 2, we will take evidence on the need to improve the employability of individuals who are experiencing high levels of multiple deprivation, as a prerequisite to increasing sustainable growth. This is the third of our sessions on that theme. We will hear from Katie Hutton and Danny Logue from Skills Development Scotland, whom I welcome to the meeting. Before we move to questions, I invite one of you to make a brief opening statement.

Danny Logue (Skills Development Scotland): Thank you, convener, and thank you for the opportunity to present to the committee.

First, I will set out some background. As members are aware, Skills Development Scotland is a national service, but our focus is on local delivery through supporting local services, individuals, employers and partnerships. We are responsible for implementing Scottish Government policy, particularly in the economic and skills strategies, the youth employment strategy, and the recent careers information, advice and guidance strategy. Our key focus is on delivering careers information, advice and guidance services and our national training programmes, which include modern apprenticeships, individual learning accounts and a range of services to employers and partners.

Since SDS was created, the number of services that the organisation provides has grown. Not only has there been a substantial increase in the number of modern apprenticeships that we have delivered, but in the past few years the Government has introduced a range of economic recovery measures to deal with the current economic situation. Examples are the employer recruitment centre, flexible training opportunities and adopt an apprentice. The organisation faces the challenge of undertaking substantial service modernisation, particularly in the delivery of our careers information, advice and guidance services, as well as our online services such as the my world of work website, and our other services for employers.

We have undertaken substantial work on research and evaluation, particularly of labour market information at the Scottish level and at local level, to support our staff in their delivery of labour market information and to inform our partners and other providers of our services in labour market information and guidance, and so on. Our strategy on that will be published in the summer.

I have a couple of final points about the importance of SDS in its role as a key partner. Much of what we do is about working with and through others. We are in our third year of service delivery agreements with local authorities in order to ensure that we align our services to meet local needs and priorities so that there is much greater cohesion in what we deliver locally. We also work with others in the Scottish Government-led better alignment of Scottish employability services—BASES—initiative, which involves SDS, Jobcentre Plus and other partners working in the employability field on how we can provide services to individuals and employers so that they gain the maximum benefit and efficiencies through the alignment of resources.

We are about to publish our 2012 to 2015 corporate strategy and our operating plan for 2012-13, and much of what will be covered today will be contained therein.

The Convener: Thank you, Mr Logue. Do you have anything to add, Ms Hutton?

Katie Hutton (Skills Development Scotland): No.

The Convener: We will go straight to questions. As is usual for this committee, I will start and then open up the questioning to colleagues round the table.

Your submission refers to “very positive results”, which

“show that the programme is meeting the needs of individuals”.

What do you consider to be success in meeting the needs of individuals? How many people who go through your various programmes are retained in full-time employment?

Katie Hutton: Our success in meeting an individual’s needs all depends on what they come to us with. For example, in our get ready for work programme, a careers adviser’s needs assessment might identify a number of needs with regard to essential skills and suggest an individual learning plan; the training provider will then consider how to respond to those needs.

The programmes have different outcomes. The success of get ready for work, for example, is measured in terms of whether the individual got a job, progressed to full-time education or got a job with training through the modern apprenticeship scheme. On the other hand, the success of modern apprenticeships is measured on the basis of whether the individual achieved the full qualification and apprenticeship; in the summer, we will do some follow-up research on the retention rates of trainees who complete their training with employers or others. Finally, training for work—the adult-based programme for those

who are 18-plus—is simply about whether the individual got a job or became self-employed.

The Convener: What are the success rates for each of the programmes?

Katie Hutton: The success rate of the MA programme is 75 per cent. When we give you success rates, no one has been dropped out; in other words, someone who is on the programme for a week or less is included in the leavers rate.

With regard to get ready for work—

The Convener: I am sorry, but did you say that someone who is on the programme for only a week is included in the success rate?

Katie Hutton: I said that we do not discount anyone. In England—indeed, in the other countries in the United Kingdom—the published modern apprenticeship rate discounts individuals who did not stay for longer than six weeks. In Scotland, however, the achievement rate is a pretty harsh measure and the same is true for the rest of the programmes.

Get ready for work is for people who cannot go straight into work, a modern apprenticeship or further education, so the achievement rate for it, including life skills, is much lower at 43 per cent, while the achievement rate for training for work is 56 per cent.

The Convener: There are considerable disparities. Are you looking at what has worked and what has been unsuccessful in order to get these figures up in future months and years?

Katie Hutton: You need to bear in mind that get ready for work, for example, is considered in isolation and that we use the straight hard measure of what happened to an individual. At the moment, we are finalising a piece of work that looks at how that compares with other programmes. The problem is that we do not have a lot of published data on programmes and, in fact, what data does exist is only for very small initiatives. We might know, for example, that 30 people took the get into cooking course and that it had a very high achievement rate; however, we would have no data on how much funding went into what is a very small-scale programme.

We are moving on to the next stage of that work to examine why there is such disparity in the achievement rates among the providers that deliver the programme, which will involve looking at individual case studies to see whether any differences emerge. Of course, that disparity could be the result of a variety of factors, including the people whom the provider takes on. It is clear from individuals’ qualification levels that some providers are taking on people with lower level qualifications and there is a correlation between the qualification levels that are achieved at school and the

outcomes. As a result, providers cannot be judged on that basis.

We should remember that some local authorities provide programmes for people before they go on to get ready for work, which suggests that individuals might receive different levels of investment. In addition, we must recognise that different job opportunities exist in local labour markets and that area 1 might not have the same job opportunities as area 2. A number of reasons underpin the disparity that you highlighted, and part of our work is about understanding how to improve the situation.

Finally, we worked with the Government on the making training work better review that it undertook at the end of last year. I believe that the results of that will be published fairly soon.

The Convener: As you are probably aware, we took evidence last week from a number of organisations. The Federation of Small Businesses in Scotland expressed concern that Skills Development Scotland was not focused enough on the small business sector and that a lot of effort was put into larger companies and employers. In addition, the Scottish local authorities economic development group said in its written submission, with regard to small and medium-sized enterprises:

“There is often a disconnection between the nationally articulated employer support needs and those which exist at a local level.”

What is your view of how best to support SMEs? For example, a submission for last week’s meeting referred to the potential for small businesses to share an apprentice. Small businesses may not have sufficient work or finances to enable them to employ one individual as an apprentice, but perhaps a few could share an apprentice in order to upskill them.

Katie Hutton: The Scottish Government is developing the shared apprenticeship model, and one of the submissions for the making training work better review referred to that model. The Government is working with different sectors on the model, and I know that it has contacted the FSB about involving it in that work.

A lot of the support that we offer is concentrated on small businesses. For example, the flexible training opportunities are available only to companies with 100 employees or fewer. An employer recruitment incentive is running that is targeted at smaller companies. The vast majority of employers who are involved in the modern apprenticeship programme are SMEs.

The Convener: You referred to the employer recruitment incentive, but has that not been suspended?

One of the issues is the continual changing of training delivery models. It is difficult for companies or organisations to keep up with all the changes. Your submission refers to duplication, but there is a real issue for employers in knowing what is available, how they can access it and when changes have been made. For example, an employer might think that a recruitment incentive is suitable for them but when they apply for it they find that it has been withdrawn for whatever reason.

Katie Hutton: There has to be flexibility to change and direct resource to where it is needed most. For example, we have been working with the Government on identifying exactly what is required for changes to the employer recruitment incentive, which is targeted at ex-care leavers, young offenders, young carers and so on. That is about trying to target the resource to give those young people the opportunity to become apprentices or get jobs without training when they would otherwise not have had that opportunity. Such young people are very much bumped down in the labour market. If more people are available, an employer will not necessarily take on those young people. Taking on young people from those backgrounds is a bigger risk for employers.

We are about to launch a website that is directed at employers to try to gather everything in one place. As we progress, I hope that it will include all the local authority initiatives and so on. We want to gather in one place the range of assistance that is available to employers across Scotland. We have put a lot of effort into trying to get that up and running as quickly as we can.

We are involved in BASES, which is a project that the Government set up to align all the employability services that are available to employers across Scotland. Again, that is about collaboration with local agencies, because as well as the fact that we announce changes, local authorities come up with new funds and so on. In a way, that is an occupational hazard given that we are trying to direct resources to where they are needed most. However, we recognise that it is about communication.

We involve organisations such as the FSB and chambers of commerce in advisory groups that we have around things such as flexible training opportunities and the employer recruitment incentive, so that they can guide us on how best to communicate with employers. You might remember that a couple of years ago, as part of the whole response to redundancy, we ran our marketing material past all the organisations and asked them, for example, whether it fitted the bill and was clear enough and not too wordy. We try to do such work on a continual basis.

The Convener: Yes. Thanks very much.

Minerva People Ltd suggested in a written submission that there should be a “one-stop brokerage service”, but that it would have

“to ensure that there was engagement with **all providers**—public, private and third sector and **market for everyone** meeting the local need.”

That is an important point, and I am glad that you have taken it on board.

I open out the session to colleagues, who have a number of questions for you. We will start with Elaine Murray, to be followed by Paul Wheelhouse.

Elaine Murray (Dumfriesshire) (Lab): When we took evidence from the Scottish local authorities economic development group, it was a bit concerned about the get ready for work programme because it said that there was no skills element attached, not even a core skills element. Given the need for such skills, a lack of which is often one of the initial barriers to finding work for young people, will you say a bit about that? It is a matter of concern if there is no core skills element attached to the programme.

10:15

Katie Hutton: I noticed that with interest when I read the *Official Report* of the meeting. As I said, in the individual learning plan that is produced for every individual, the careers adviser will identify the skills gaps for that individual. Essential skills include core skills, so all the core skills elements are in there. If an individual has particular needs, those will be included in the plan. Therefore, core skills are a feature of the get ready for work programme. We can give the committee the individual learning planning paperwork so that members can see all the core skills elements. The careers adviser will identify what the individual requires. We can also give the committee case study material. In preparation for this meeting, I contacted a training provider to ask for some case studies to show what is delivered to deal with individuals’ needs. The core skills issue is writ large in those case studies.

Elaine Murray: Were SLAED’s comments just a misunderstanding of the programme?

Katie Hutton: I cannot understand them, because everything that we have put in place ensures that core skills are covered. The essential difference between the get ready for work programme and other programmes is that it is there to help people who are not yet ready to move on, and the biggest gap is usually in core skills.

Elaine Murray: I have not looked at the my world of work website, but what is the offer on it? I

believe that it is intended to allow young people to find out for themselves what work might be like and what might be most suitable for them, but how do they go about that? Does the website help youngsters to identify their weaknesses and what sort of work might be suitable for them? Youngsters are often fairly unrealistic in their aspirations—loads of kids want to be a footballer or a millionaire or something. How can that be dealt with by a website, rather than by a person who can assess somebody’s skills and work through some of the issues with them?

Danny Logue: The my world of work service is for individuals of all ages to access information on careers, learning and skills. There is a range of tools for individuals to use, such as a tool that helps people to identify their strengths. A number of additions are about to be made to my world of work, which is still under development. There is an interests guide and other course information. There is a range of information on the website. We have included a lot of video clips of people who are in jobs talking about their experiences of how they accessed the job and how they can utilise that job. That service is available in schools and career centres, and it is on the web, so people can access it in that way.

It is important to place that website in the context of the other channels that Skills Development Scotland provides. We have a customer contact centre, which provides a telephony service for individuals. I talked earlier about service modernisation in relation to careers information, advice and guidance, which is important. That is about the work that our careers advisers do in schools, communities and career centres. The advisers offer tailored support to individuals based on their particular skills needs and career ambitions. People have an opportunity to meet a careers adviser if they so choose.

We provide a blend of channels. Individuals can access particular channels depending on what they are looking for and their needs. Ultimately, if an individual wants to speak to an adviser about what they have researched, they can do that. We encourage individuals to access online services to prepare for their career and to consider what they would like to do. The feedback we have had is that that is what people want. However, that is supported by face-to-face opportunities.

Elaine Murray: But people get a face-to-face opportunity only if they decide that they want it.

Danny Logue: Yes.

Elaine Murray: I am slightly worried about whether people will get the right sort of feedback from a web-based programme. An experienced adviser dealing with a young person might pick up signs of issues in a way that is not possible when

somebody is just feeding information into a computer.

Danny Logue: Individuals may want to speak to an adviser about an information need, but quite often much of that information is available online. We would encourage individuals to research what they are looking for first, and if they then want to talk to an adviser about it, that facility exists so that the individual can get much more detailed support and a career guidance assessment if that is required. That allows us to offer all those different channels to individuals, depending on what they are seeking to do.

Ultimately, if an individual—whether they are a young person or an adult—needs to sit down with an adviser to access information or to have it interpreted, that facility will be there. However, not everyone requires that, which is why part of our service modernisation involves ensuring that we prioritise our clients and customers with regard to the availability of face-to-face services.

Elaine Murray: I want to touch on the subject of modern apprenticeships, which is reflected in some of the evidence that we have received. You say that 75 per cent of modern apprenticeships are completed successfully. How long would those courses be?

Katie Hutton: It depends on the level of the course and the framework that an individual is following, and on that individual's ability. The length of time that it takes someone to achieve a certain level depends on the rate of individual learning. We can get the figures for you on the different frameworks and levels.

Elaine Murray: That would be interesting. Minerva People suggested in its submission that, instead of paying the full amount to the employer right at the beginning of the programme, we should perhaps pay half at the beginning and the other half halfway through or at the end. That might release funds where people did not complete a course, and would perhaps encourage the employer to stick with their apprentice and possibly bring them into the company. Minerva stated:

“Modern Apprenticeships often take one year plus to complete”

and noted that at that point somebody would then be “a valuable member” of the company.

Katie Hutton: I think that there is a misunderstanding there. The payments for modern apprenticeships are made in arrears. For 16 to 19-year-olds, there is an up-front payment of £150 for registration et cetera; that start payment does not exist for any other age group. The rest of the money is paid on the milestones towards completion, and only once a person has

completed those milestones can the employer make a claim. Quite a bit is kept until the end and is tied to what the person achieves.

Minerva People may have been talking about the employer recruitment incentive. One of the changes that we are making for this year is that we are working with Government to discuss whether we can stage the payments to improve retention rates. A number of local authorities do that, and we think that the scheme will fall into line with those authorities.

Paul Wheelhouse (South Scotland) (SNP): I should declare an interest, in that I have done consultancy work in the past for Skills Development Scotland, and for Careers Scotland before that.

There is an inherent tension between two elements. There is a desire on the part of employers for everything to be simple to understand, and for them to be able to choose from a limited range of products rather than being confused by what is out there in the market. However, Who Cares? Scotland stated:

“For us, the solution is not to fit the young person to the programme but to fit the programme to the young person.”

As a number of other witnesses also noted, there is a desire for flexibility and adaptability to suit the needs of the individual.

Minerva commented on the need for support that is tailored through a link or key worker who works with individuals and is aware of their back story. Such workers can explain to employers why that individual has particular issues to do with dyslexia, their background or the trouble that they have had in the past—if, for example, they were a looked-after child in the care system.

In light of those comments, do you have a view on how far you can go within the financial resources that you have to provide that level of flexibility while not losing what the employers want, which is to have an understanding of a certain range of products from which they can pick?

Danny Logue: Katie Hutton mentioned the making training work better review. One of the areas that we have been exploring is how we make programmes such as get ready for work more flexible. That programme has been going for a number of years in a different set of economic circumstances. As part of making training work better, we are seeking to make it much more flexible—in the ways that you have identified—for the individual.

My second point concerns the range of other offers that local authorities, third sector parties and other organisations deliver in that space. A key action for us involves working through, for

example, the service delivery agreement—to which I referred earlier—with local authorities and our third sector and Jobcentre Plus partners to ensure that we align the various types of offer, so that we can prioritise and target them to need rather than duplicate services. There is what we call an employability pipeline that includes a range of interventions and support.

Thirdly, as part of our service modernisation programme, we have been looking to establish what we term work coaches. We will be looking for a number of work coaches across our organisation whose role will be to work with individuals to ensure that they access learning, training and employment and that they sustain it. A challenge that we face with young people, in particular, is that they might start a job or a programme and then drop out. Through work coaches, we will offer a much more tailored service. Work coaches will work with and case manage young people, particularly young people who need a high level of support. They will also work closely with the training provider or employer to ensure that the training or job opportunity is sustained and produces successful outcomes.

Paul Wheelhouse: My second question touches on rurality. I regularly bore my colleagues on the committee by talking about rural issues but, as a representative of a rural region, they are quite important to me. We have had evidence from bodies such as SURF on rurality. Minerva People said:

“In rural areas with mainly Micro/SME businesses, it is difficult finding employers willing to take young people on as some of the work is seasonal, transport difficulties arise if working unusual hours”,

particularly when there are no bus services outside normal hours. That is true of the hospitality industry, for example. Releasing staff for training is also a problem.

Last week, a number of witnesses talked about their experience in the hospitality sector. One witness said there was a big risk involved in putting a new trainee in a position in which, if things went horribly wrong, they could get eight negative reviews on a customer review website in the space of one day.

How do you deal with the difficulties that are faced in rural areas, where it is often hard for people who do not have access to a car to get to training opportunities? Young people are sometimes characterised as being unreliable, but that might be unfair on them—if there is only one bus and they miss it, that will knacker them for the day. There are sectors in which putting a trainee in a public-facing role at an early stage carries a high risk and could affect a business's reputation.

Katie Hutton: In the Highlands and Islands, there is a different rate for the get ready for work programme, which helps people to cope with some of the infrastructure-related issues that exist in the area. Getting placements in such areas is not the easiest thing in the world, but I think that providers—that includes colleges—can be pretty inventive when a local base is not available.

I have been reading the bids for the new college learning programme that has just been announced, and the issue of rurality has come up. One rural college has a commercial garden. That is a commercial environment, which provides not just work experience—it is not like building a wall and destroying it again. It offers people the chance to work in a commercial garden. There is also an incubator unit, which is about allowing small businesses to grow and to move on to the next stage. There are inventive ways in which providers can overcome such issues, but it is not an easy situation. We recognise some of the rural issues that exist.

It is about the partnerships working together locally. Through our service delivery agreement process, we have had meetings across the country. In certain parts of southern Scotland, we have talked about provider forums getting together to get round the issue of provider development in an area where, historically, infrastructure is not as good as it could be.

Paul Wheelhouse: You mentioned a commercial garden that a college operates. In a similar vein, do you think that the third sector has a role to play in providing opportunities that commercial companies might be more reticent about providing, for example by taking on an apprentice? Could third sector organisations break people in and then provide them with the opportunity of long-term employment?

Katie Hutton: Absolutely. Colleges are using the third sector a lot to provide work experience opportunities. Other providers are doing that, too. The third sector plays a vital role in delivery.

10:30

Danny Logue: Perhaps I can add one or two comments. Katie Hutton mentioned joined-up services. The service delivery agreement process has provided a great opportunity for us to work closely in rural areas with, for example, Dumfries and Galloway Council and the local chamber of commerce, as well as with Highlands and Islands Enterprise and other parts of the HIE area, and to ensure that the resources at our disposal are aligned with those of others.

It is worth while mentioning our services on the ground. For example, our workforce planning exercise utilises a number of factors to ascertain

the levels of staff that are required across the country. Key among those factors is the rural dimension, which means that there is a weighting not just in the allowances in get ready for work, as Katie Hutton mentioned, but in staffing.

Finally, we work very closely with the third sector in its various forums. A social enterprise challenge fund is about to be announced and we will be working directly with that sector on looking at and commissioning innovative approaches to addressing certain employability challenges across the country.

Paul Wheelhouse: I look forward to getting more information on that interesting development.

John Mason (Glasgow Shettleston) (SNP): It is good to have both of you here. As you can imagine, we have received a lot of evidence and information on this subject. Some people have wondered whether the public sector could be doing more to take on vulnerable young people—if I can use that phrase. To some extent, a small private business can take on anyone it wants and is perhaps not too worried about certain procedures, but the public sector, including local authorities and the national health service, tends to be very tied down in that respect. What is your take on whether the public sector should take on more young people?

Katie Hutton: Actually, we are engaged in a programme of work with the public sector on taking on more trainees. The Scottish Government, for example, has engaged with the get ready for work programme and the NHS is desperately keen to be involved in modern apprenticeships. However, there are balances to be struck and, at a time when the public sector is looking to slim down, taking on new staff will be a challenge. Of course, the public sector can address this issue not only in its recruitment practices but in its procurement practices, with contracts that promote opportunities for young people.

John Mason: Do you feel that the public sector might have been weak in that respect but is now starting to improve?

Katie Hutton: We have to use all available avenues to create opportunities. Indeed, I think that in its recently published youth employment strategy the Government has emphasised that public sector organisations should look at their own recruitment and procurement practices to ensure that the best opportunities are available.

Danny Logue: At the last meeting of the Scottish leadership forum, which comprises the great and the good of the public sector, Sir Peter Housden suggested that the sector pledge its support to help to address youth employment issues not only through the number of modern

apprentices that could be employed in the sector but in other aspects of work experience and employability support—by which I mean not just traditional school work experience but work experience for those who have left school and others in the 16-to-24 age range. Scottish Government colleagues are now analysing the pledges that the public sector made and, next week, we will meet the Government to review them and look at what the public sector would like to do.

As Katie Hutton has said, one challenge that emerged at the last forum meeting was head count. One or two public sector representatives said that, although they would like to do more in this area, restrictions on staffing and head count were proving to be a barrier and the Scottish Government is considering whether we can get round that to support the youth employment agenda and to give people experience through a modern apprenticeship or a work experience programme.

A very good example in that respect can be found in Orkney. I have been doing some work with NHS Orkney, which has been very keen to look at what it calls a shared apprenticeship model that would involve the health board, Orkney Islands Council and other public servants. I certainly think that lessons that we have learned there can be applied elsewhere.

John Mason: You mentioned some figures, such as your 75 per cent success rate. Page 5 of your report says:

“the proportion of pupils who left school during 2010/11 who were in positive initial destinations was 88.9%, up from 86%”.

That sounds quite good. I am assuming that that varies quite a lot geographically, even within a city such as Glasgow—I say that to put a counterpoint to my rural colleagues. Could you comment on that?

Danny Logue: The increase in the figures that you mention was good news.

One of the key issues is that, as you mention, there are variations across the local authorities. We build up our approach from an individual school level, then we build it to a local authority level and then to the national level. As Katie Hutton mentioned, there are variations in what is available in the local economy. The figures include individuals who go to university, college, employment, training and voluntary work. We can provide you with data that is broken down across the local authorities and shows trends in various areas.

SDS reports on school leaver destinations and does a six-month follow-up report in March. We are now working closely with schools and local

authorities to address the challenges of youth unemployment, particularly in relation to school leaver destinations. Two years ago, the City of Edinburgh Council found itself at the bottom of the school leaver destination tables. The challenge was what we were going to do about it. Working with SDS and the capital city partnership, the council identified which young people were ending up in a negative destination and quantified what the issues were. We also worked with the businesses in Edinburgh on a number of activities. The council, businesses, Jobcentre Plus and we have formed something called the Edinburgh guarantee, and we are working to deal with some of the issues that have arisen and which were identified in the school leaver destination report.

John Mason: The figure of 89 per cent sounds good, and it should be possible to get it up to 90 per cent or whatever.

Last week, it was suggested to us that some people were “unemployable”—that is the word that was used. Whether they number 1, 2 or 5 per cent of the total is unknown, but there is clearly a corps of people whom it is difficult to engage. Do you see them as not forming part of your remit, because there are so many who want to engage, or do you see them as being part of your remit as well?

Danny Logue: Every year, there are 53,000 school leavers. Obviously, a number of them will have difficulty entering the labour market, training or employment. Through the services that we provide, such as the work coaches that I mentioned earlier, we case manage those young people who are looking to take up an opportunity. As part of the youth employment strategy and the opportunities for all initiative that has been announced by the Scottish Government, we are focusing on this age group to support these young people in accessing learning and training.

A number of young people will face barriers, issues and challenges while they are at school that are not employability challenges. There are other life challenges, such as health issues and behavioural issues, and there are a number of other organisations that work with those young people. Rather than duplicating the services of social work departments or good third sector providers such as Barnardo's and the Prince's Trust, we work with them.

As I said in relation to the employability pipeline that I described earlier, there are roles and responsibilities that respective organisations can play, and we can add value to that. We work closely with social work, for example. There is a handover to Skills Development Scotland when a young person is ready to get support for employability programmes or further education training.

Mark McDonald (North East Scotland) (SNP):

The deputy convener touched on the submission that we received from GTG Training, which indicated that 81 per cent of the young people whom it assessed—we do not know whether it saw them personally; it has not given us that information yet—were assessed as being unsuitable for any form of employment. What were your thoughts on that submission and on the way in which GTG made that suggestion, based on your experiences of young people in the workforce?

Danny Logue: We have experience of the young people who tend to need that support. Just under 5,000 of the 53,000 people who leave school every year will have some form of difficulty in entering the labour market. Those difficulties might be down to opportunities that are available in the labour market, so we have to narrow down our focus to the young people who require that support and work with partners to support the particular needs that they have.

That involves working with teachers in schools, including learning support teachers, and other support providers. In addition to the get ready for work programme, which I talked about, activity agreements have been introduced in schools in the past two years. With the activity agreements and programmes such as get ready for work, we have tried to identify the gaps and the skills needs that young people may have and offer particular programmes of support that will help them to reach the stage where they are ready to enter the labour market, college, university or whatever. A lot of support measures are already in place and we work closely with our partners and with young people to help them to reach that stage.

Yesterday, I was at a certain large hotel in Glasgow and we were talking about the challenges and barriers that looked-after and accommodated children face and the support that they need in relation to employability to make them job ready. That hotel is up for an award because of the employability support that it provides. I spoke to a number of young people who were there, and the human resources manager mentioned how job ready they were. In that case, the programme that we provided is targeted pathways. We have worked closely with a group of young people whom we would think would have difficulties in entering the labour market, but we are seeing considerable success with that group.

The answer is that a lot of support is already in place. Yes, there are young people who face barriers and challenges, but we and others have to ensure that we work intensively with them to help them to secure access to training and employment.

Mark McDonald: An extrapolation was made from GTG's submission, and some of the headlines screamed that 80 per cent of young people are unemployable. However, based on the figures that you have provided to the committee and your experience, you would say that that is an unfair extrapolation to make from that submission.

Katie Hutton: I think that the most recent national statistics published were from the employer skills survey, which said that 59 or 60 per cent were not job ready—I cannot remember what the correct phrasing is. The other point that has been made about GTG's submission is that it takes a lot of people from the Prince's Trust and so on, so it sees a certain client group. The figure that we understood from the most recent employer skills survey was 60 per cent.

Mark McDonald: I raised the issue at our previous meeting. I was kind of thinking out loud, because the company was not there to answer the question.

In your experience, do companies that identify through interviews or training programmes individuals who are not suitable for the workplace then identify or signpost them to you or the agencies that you work with in order to allow those individuals to develop the soft or hard skills that they need to enter the workforce? The concern is that, if nobody does anything about it, all that those people do is get caught up in some sort of merry-go-round. They go round and round employers without managing to access the labour market. What is your experience in that regard? Is there adequate signposting to you?

Danny Logue: I made a point earlier about our case management approach. Our staff, together with Jobcentre Plus and our other partners, case manage and work with young people, and much of that involves referrals to interviews and applications for college courses. If the young person is unsuccessful, they will continue to work with their adviser in our organisation or other organisations. In that way, we provide on-going support.

In each of the 32 local authorities, there are local employability partnerships, and linked to that are youth employment action plans. That means that, in each area, various partners will be working with these young people. It could be SDS, Jobcentre Plus, a local authority employability programme or another partner.

A great advantage for us within the local employability partnerships has been the creation of the 16+ learning choices data hub, because that means that we have a facility to identify young people in schools, to offer them support post-school under our case management approach, and to track what employment, learning or training

they gain. The data hub enables us to share the data with schools, and we are now also working closely with Jobcentre Plus and the Department for Work and Pensions, because another dimension is the youth contract that the DWP has introduced throughout the UK, which offers a service to young people, particularly 18 to 24-year-olds.

We have to ensure that all the organisations are working together, and the data hub is a useful tool because it allows the advisers to share information on where young people are.

Mark McDonald: On the careers information and guidance element of SDS, I wish that I had listened to what my careers adviser said I would be doing for a job when I left school. I have asked this question of a number of witnesses. Is enough being done to tackle the stigma that is often attached to certain jobs? Teachers, and often parents, use the mantra, "If you don't stick in, this is what you'll end up doing for a job," and that becomes the job that no one really wants to do, or it has a stigma attached to it. Is enough being done to break down that stigma?

10:45

Danny Logue: More is being done on that. Parents and teachers are very influential for young people, and much of what they say is down to their own experiences. Increasingly, parents and teachers form an important audience for our information about the labour market. The UK Commission for Employment and Skills is using SDS labour market information—I mentioned our research facilities earlier—as an example of good practice. That links into the my world of work website.

We want parents and teachers to be able to access what is happening in the labour market and the opportunities that are there. For example, when we talk about modern apprenticeships, many parents will think of construction and engineering because those are the industries that traditionally took on apprentices, but 108 modern apprenticeship frameworks have been approved and 84 or 85 are currently live in completely new industries that parents might not have realised exist. There is a lot of scope in the range of modern apprenticeships that are available.

The other big advantage of the opportunities that are available in the labour market is the levels of opportunity. Modern apprenticeships can range from Scottish vocational qualification level 2 to level 5 and there are equivalent qualifications for young people across the higher education sector. When we are working with young people in schools and their teachers and parents, the

challenge for us is to make sure that they are fully aware of all opportunities.

To go back to the point about stigma and telling young people that they have to go to university to be successful, that might be true for some young people who have the skill and interest, but there are opportunities for others. This year and for the next four years, we will deliver 25,000 modern apprenticeships that young people can access. Last week, Scottish modern apprenticeship week showcased what is available in each area. Such showcases allow parents, teachers and young people to see the range of opportunities and careers and how they can access them. They show how we try to blur the difference between academic and vocational education and skills, and demonstrate the benefits in both.

Mark McDonald: You have spoken about the different people you work with. During these evidence sessions, I have been struck by the need to use positive role models. The witnesses from Asda told the committee the other week about how the chief executive started off stacking shelves and only had one O level.

It is not just that. There is the idea that people need to go to university to make a success of themselves, but we can look at people like Jim McColl, who is one of the most successful businessmen in Scotland but does not have a higher education.

The other aspect that has been touched on is the difficulties and stigma that care leavers face. If five young people go for a job, one of whom is care leaver, is that care leaver at a disadvantage in terms of parity of esteem? Are care leavers locked out of the jobs market? I wondered about the use of role models or mentors in that regard. They do not need to be chief executives or to own their own company, but they might be people who have come from a care background and are holding down a steady job. They could go and talk to young people as they prepare to leave care and explain to them how they got their foothold in the labour market. It might not be about giving those young people training or skills; it might just be about giving them the confidence.

The Convener: Could you come to your question, Mr McDonald?

Mark McDonald: Apologies, convener. Could you comment on that?

Danny Logue: One of the best examples of Skills Development Scotland and schools using role models is when we bring back into schools young people who are, or have been, on a modern apprenticeship or who have been to college or university to talk about their experiences. Another opportunity to use role models is through the curriculum for excellence, which looks at skills for

learning, life and work. We have traditional work experience, but we are trying to get more businesses into schools to talk about their particular experiences.

Skills Development Scotland, local authority social work departments and other partners deliver a number of support programmes that target care leavers. I have had personal involvement with a good example of that in Glasgow, which is a care leaver programme that works with young people who have been in care and helps them to access training and learning.

I mentioned the case studies on the my world of work website in which people talk about their experiences. They also talk about how they overcame the barriers in their personal lives. Those case studies are on the website, so young people can use them.

The issue is about how we work across the board. Katie Hutton mentioned how we target some of our resources. There are recruiting incentives that tie into that to support particularly vulnerable young people. We run various programmes, as do Barnardo's, the Prince's Trust and so on. Each of those programmes has case management staff who work with young people. Of the six young people whom I met in the group in Glasgow who were being case managed, two were on the get ready for work programme and four had started a college programme, with two of them moving into the second year of a college programme. We use those young people in group work sessions, because they are very good at talking about what the programme meant for them, the barriers that they had to face and how they overcame them. They also talk about overcoming stigma and the support that Skills Development Scotland and other organisations can provide on that. The issues are the same with ex-offenders. Young people who have been in Polmont and Cornton Vale work closely with that group to offer support.

Katie Hutton: Last week was Scottish apprenticeship week, the whole point of which is to promote apprenticeship to employers and to encourage young people to take part. A key part of that is using businesses as exemplars and individuals who are involved in the apprenticeship programme as ambassadors for it.

Mark McDonald: Thank you. I will make a note that brevity is a skills gap for me, convener.

The Convener: Indeed.

Michael McMahon (Uddingston and Bellshill) (Lab): I have a series of questions, but I want to begin by getting a sense of the environment in which you are operating. I know that creating apprenticeships is a key focus for you, but you are doing it in a difficult economic climate. As I

understand it, there has been, I think, about a 20 per cent cut in the SDS budget. Given that about 50 per cent of your costs are staffing costs, a 20 per cent cut means a large reduction in staff at a time when you need more people to engage with the young people who require help on employability. Is that the type of environment in which you are operating?

Danny Logue: As part of the service modernisation exercise that I mentioned, we have been looking at the range of services and channels. As you rightly identify, one of them is staff. As part of the exercise, we have been considering how we prioritise and target our resources at those people who need them most. In the past, the service was open to everybody and anybody who wanted to walk in. We had examples in which a lot of individuals from Spain suddenly parachuted into one of our career centres. People can come from different countries. With our staff in schools, we are looking to prioritise the young people who are in most need. As part of the service modernisation, we are creating a more targeted service. The careers advisers will continue to work in schools. I talked earlier about the work coaches. They will case manage particular groups of young people who most need our resources.

I talked about the big investment in online services as part of the service modernisation. A lot of young people want such services. They are used to doing a lot of social interaction online and they get many services and a lot of information online. Rather than sit down and ask an adviser about what qualifications they need to go into a career, we ask individuals to do a bit of research and find out what the issues are and then come and talk to advisers.

We are delivering 25,000 modern apprenticeships, for which resources are made available through Government. We must ensure that we reach those targets, and we have a budget to do that. We will continue to provide the 25,000 modern apprenticeships. You are right that we are in a challenging environment. We need to make decisions to prioritise our resources and the clients that we have to support.

Michael McMahon: The reason why I was asking is that the whole inquiry that we are conducting is about getting to those who are the most challenging and difficult people to reach and giving them support to make them employable.

Since 1999, there has been a programme in North Lanarkshire and South Lanarkshire called activate, in which careers advisers go into schools to work with 10 particularly difficult students whom each school identifies as requiring additional support to help them into the world of work. It involves 27 schools across Lanarkshire and 270

pupils a year. You said earlier that you wanted to channel your resources to those with most need, but you have just pulled that programme. As a result, 270 young people in Lanarkshire who got tailored support because they were identified as having a specific need do not have the support any longer. They are now just thrown into the pot along with everyone else who has gone on to the career management skills framework. There is no additional or specific support for them. They are difficult students who come from deprived areas. Their access to computer technology is much less than that of people in more affluent areas. Those are the very people we are supposed to be focusing on, yet they are the people you are walking away from.

Danny Logue: We delivered the activate programme and its predecessor, on track, in partnership with a number of local authorities. However, it was not just an SDS or Careers Scotland—the previous organisation—programme, because we received income from the local authority or school to meet the cost. You are right to say that the programme has been going for a number of years. A number of things have happened in the past 10 years. Some local authorities and schools have had budget challenges and have said that they will not deliver the programme because they are doing other things.

In the years since activate was introduced, a range of other organisations and initiatives, such as the Prince's Trust, Barnardo's and Young Enterprise Scotland, have begun to deliver employability support in schools. For example, the Prince's Trust runs xl clubs. We have sat down with schools and asked them what added value Skills Development Scotland can bring for employability support if other activities are happening in schools.

I referred earlier to our service modernisation. The cohort of the most vulnerable are the prioritised young people in a school whom we will target. We will work closely with the school to identify on an individual basis who needs the support. Our careers advisers will still be in schools working with that group of vulnerable young people.

Michael McMahon: I have spoken recently to staff who are concerned about the activate programme. They are not quite as confident as you are that they will get the opportunity to work with those young people, because under the career management skills framework the young people will have to self-assess. The Unison SDS branch looked at the programme and brought out a report in which it stated:

"Membership responses highlighted considerable reservation of assertions that through a process of self

assessment, reflection and by using tools provided on My World of Work, that the majority of young people will develop Career Management Skills.”

For the past 10 or 12 years, the staff you are depending on to go in and do the work have had a way into the most vulnerable young people, but that has been taken away. They are now relying on self-assessment in which young people will identify for themselves that they need additional support before the staff can start working with them. That does not seem to me to be an improvement in the service.

Danny Logue: The comments that Unison made are incorrect. We have said that the online service will be for people who want to access services online, which is fine. However, a number of other young people, particularly the group that you have mentioned, will have a face-to-face, supportive, intensive service through the coaching approach that we are undertaking as part of career management skills, as you rightly identified.

As we have done in the past across the country, we will work very closely with the guidance staff in the schools to identify who needs our services more. The careers adviser in the school, working with the guidance staff, will identify young people themselves. The guidance staff refer them to the advisers, so the young person does not have to undertake a self-assessment that acts as a barrier to getting to an adviser. They can identify and work with the school, the guidance staff and us to ensure that they can access the face-to-face intensive services, if they require that.

Michael McMahon: That flies in the face of what the staff are telling me. I came across a report by the centre for educational sociology at the University of Edinburgh, which stated:

“A fundamental issue is how these skills are to be measured. How might a 16 year old demonstrate ‘Understanding how my self-concept/awareness has an impact on achieving my personal, social educational and vocational goals and decisions?’ Or even more simply ‘Knowing who I am (in terms of my strengths, skills, experiences etc)’”.

Academics and the people at the coalface in careers advice are saying that self-assessment is fundamentally flawed.

11:00

Danny Logue: People can access the my world of work website and utilise the tools that are there, but the particular group of young people that you have identified do not have to go through the barrier of applying online to see an adviser and do certain things. They will be referred directly by the guidance staff in the school to ensure that they get the intensive support that is available. Part of the exercise that we have been doing with our advisers involves ensuring that we focus our

resources on those young people—and adults—who need that face-to-face contact most.

In secondary 4 to secondary 6, for example, not every young person needs to see an adviser. Many of them will be self-motivated. They know what they are looking for, and they know that they are going on to college, to a job or to university. However, there will be others who do not have that same degree of support or advice from their family or from teachers, and our staff will be working closely with them and targeting particular schools.

That goes back to my earlier point about our workforce plan. How we identify the resources that we deploy is based on a number of factors, one of which is the Scottish index of multiple deprivation. We can drill down to local authority and school level to ensure that we weight the resources that we have in schools and local authorities to deliver those particular services.

Just to reassure the committee, we will not be walking away and not providing support to young vulnerable people who need our help most. That is where we will prioritise our face-to-face resources.

Michael McMahon: But you mentioned that people who self-assess would get additional support from their guidance teacher. I have spoken to teachers in schools, who say that they have not had any training on how to assess the self-assessment, to see whether young people need additional support based on the assessment that they have done themselves.

Danny Logue: The my world of work website is just one tool that teachers or pupils can utilise. We have been training and working with teachers across local authorities to introduce them to that particular resource. In the past, teachers have used the continuing education gateway’s planIT plus system, which we are now incorporating in our system. The existing systems that schools use will be incorporated in the my world of work website, so they can use that.

The other change for us concerns curriculum for excellence, and the curriculum changes around skills for learning, life and work. We are working closely with schools, which have a responsibility to deliver those skills as part of the curriculum, to look at how our advisers and resources can support teachers and parents in that regard. That will have permeated the curriculum already, so it is not just a bolt-on from SDS advisers. We are looking at how we come in and support the wider curriculum, and support the teachers in what they are delivering.

Michael McMahon: You have mentioned the my world of work website a couple of times. Some concerns have been raised with me in that respect. If someone goes on to that site, nowhere

does it tell them where their local careers advice or support service is.

In my area, that is a particular problem. In Bellshill, we used to have a careers advice facility in the local credit union that was open for two days a week, but it does not exist there any longer—it now operates on one day a week out of the local jobcentre. We have gone from a situation in which it operated for two days in a stand-alone modern facility, with easy access for people to drop in and talk to advisers as they saw fit, to the current situation. If people manage to find out where the service is now, they have to go to a Jobcentre Plus, where there are security staff on the door and where they need an appointment before they can get through that door. That hardly makes careers advice more accessible to people who are looking to get additional support.

Danny Logue: As part of the opportunities for all initiative, we will be providing a commitment to support all young people from 16 to 19 in accessing services. That is about centres—as Michael McMahon mentioned—but also, importantly, about how we work with the other partners that are operating in that space. Jobcentre Plus has a youth contract and has advisers who work in particular with young people who are under 18 and on jobseekers allowance.

We are asking where there are opportunities for synergies. Airdrie is a good example, as there is a Jobcentre Plus 50ft away from a careers centre. We need to look at how we work in partnership. I mentioned earlier the better alignment of Scotland's employability services initiative, which is about how Jobcentre Plus, SDS and the local employability partners can work collectively and more efficiently, because very often we share the same client groups.

As part of the estates strategy that we are looking at just now, there is a commitment to having centres in communities across Scotland. We are looking at where we need to be located. One of the challenges in that respect relates to footfall. There are certain centres that very few people come into but, for health and safety and other reasons, we have to deploy a number of staff to respond to those small numbers. The question is how we work with partners and others to deploy our resources where young people are.

I take your point about Jobcentre Plus's security measures. We have been talking to Richard Cornish, the new manager for Scotland, about 16 to 18-year-olds in particular and about our co-locating in jobcentres. We need to break down some of the barriers that young people going into a jobcentre can face. It is worth mentioning that Jobcentre Plus staff are co-locating in some SDS centres and sharing services with us.

Michael McMahon: Did I hear you mention Airdrie?

Danny Logue: Yes.

Michael McMahon: In Airdrie, the jobcentre is right across the road from one of your main offices.

Danny Logue: That is right. It is a hub.

Michael McMahon: Your office there is not a just a small careers advice centre; it is SDS's main office in Lanarkshire. I am talking about outreach services. Bellshill does not have the service that it used to have. The service was moved to Motherwell, and people from Uddingston or Bellshill had to get two buses to get to Motherwell College, where they found the SDS service in a cupboard at the back of the library. In that light, your comparison with Airdrie and the jobcentre across the road is not really a fair one, is it?

Danny Logue: I was just trying to give you a couple of examples. We deliver services from 55 centres in Scotland. In total, we have 153 outreach centres throughout Scotland. Those are not just SDS centres; they are partners' premises, which we share.

We co-located in the new Motherwell College facility a number of years ago. You might know that we are reviewing our location there in light of the issue to do with the transport links. We are looking at premises in Motherwell town centre, which would be easier to access.

Michael McMahon: Convener, I have a couple more questions, but I appreciate that you might want to bring in someone else.

The Convener: We are running out of time, but I will let you ask one more question before I bring in Gavin Brown.

Michael McMahon: A retailer told me recently that their company had been running programmes at SVQ level 2 for a number of years before such programmes became available through the modern apprenticeship scheme. You are not creating modern apprenticeships out of nothing; such training programmes used to be offered in-house by that retailer. People who are currently working with the retailer have done level 2; the people who are currently on a modern apprenticeship are also doing level 2, and the company is now being paid to do what it used to do anyway. How much support, on average, will an employer get to create a modern apprenticeship that does something that they used to pay for themselves?

Katie Hutton: We have to reach our target of 25,000 starts, cross sector, and we have to strike a balance in relation to the bureaucracy that we

land companies with in relation to progressing people through an apprenticeship.

Some companies ask us why they are not getting support. The reason is that they are not offering a vocational qualification, and it is not a modern apprenticeship. For every anecdote such as the one that you provided, there are others about companies that are not offering modern apprenticeships, because that would involve doing things that they do not want to do. If you want us to go down to the nth degree with companies, we will need far more staff. There is no bottomless pit of funding to support what we are doing.

Danny Logue: I am not sure which company Mr McMahon was talking about, but I wonder whether it was previously involved in the skillseekers programme—I think that it probably was—which was not a modern apprenticeship programme. The policy shift in Scotland was away from skillseekers and towards modern apprenticeships, and skillseekers has now been phased out.

In the context of your point about SVQ level 2 in the retail sector, the modern apprenticeship programme is owned not by SDS but by industry. Particular industries set the standards and levels of qualification that they require, and very often, particularly in retail, the industry asks for a level 2 qualification to be delivered.

Michael McMahon: The basic point that it comes down to—this will be my last question, convener—is that, until 2008, only SVQ level 3s were modern apprenticeships, but now those from level 2 to level 5 are counted, which means that any comparison with previous figures is impossible. We are told that there has been a 60 per cent increase in modern apprenticeships, but that is because more SVQ levels are being counted as modern apprenticeships, rather than because 25,000 new apprenticeships have been created.

Katie Hutton: Let us be clear: the modern apprenticeship programme is about jobs that are offered by employers. We do not create the modern apprenticeship—

Michael McMahon: You count them; that is the point that I am making.

Katie Hutton: What we are doing is providing a funding contribution. That has been there since the advent of the modern apprenticeship programme in 1998.

You must consider the fact that one of the reasons why a lot of employers did not take up apprenticeship opportunities at level 3 is that part of the level 3 qualification involves a supervisory element, and employers said that they did not want to put 16, 17 or 18-year-olds in supervisory posts. That is why there was not a big uptake in

the retail industry, and it is an element of the increase in level 2s in other areas as well.

With regard to what Danny Logue just said about skillseekers, there is a difference between the skillseekers programme and modern apprenticeships. The main difference is that people following modern apprenticeships have an employed status, which was not the case in the skillseekers programme. Further, part of the modern apprenticeship framework is that they do core skills development as well. There is a difference between what was done before and what is done now.

Gavin Brown (Lothian) (Con): Our series of round-table discussions is focusing on employability. You talked about work coaching. When does that go live? How many of the 5,000 or so school leavers that Danny Logue said needed additional support will receive work coaching?

Danny Logue: Work coaching is being piloted just now, with a roll-out scheduled for September. Not all the 5,000 who will be in a negative destination in October will need that intensive support. We are working on the assumption that 3,000 or 3,500 will require in-depth support and that the remainder will be able to get support from advisers in centres as they do not need intensive case-managed work coach activity.

Gavin Brown: The other programme that you talked about is get ready for work, which is being refreshed. How are those pilots going, and when will the refreshed programme be rolled out?

Katie Hutton: There are two aspects to the refresh. One is the employability fund, which the Government is looking at in relation to how more of the funding for employability can be joined up at a local level. I have not seen what the Government has done in that regard.

The other aspect that we are piloting is a certificate of work readiness. The pilot—which will involve five areas across Scotland—is about to start.

Danny Logue: The certificate of work readiness relates to the preparedness of young people to move into the world of work, training or whatever. The certificate of work readiness programme will be owned by industry.

We are working closely with employer groups, the Scottish Council for Development and Industry, chambers of commerce, the Federation of Small Businesses and others on the programme's design, content and ownership. We are looking to see how we can use the certificate of work readiness in the curriculum for excellence setting and, importantly, within our existing programmes, such as modern apprenticeships and get ready for work. With the new college

learner programme, we are asking colleges to include the certificate of work readiness in the employability and work experience programmes that they run, in order that young people can demonstrate that they are ready for the world of work.

The Convener: To finish off this session, what barriers do you see to the more effective delivery of your employability objectives?

Danny Logue: There is a barrier that is also an opportunity. Earlier, we touched on the range of initiatives and services that is available, such as recruitment centres, training opportunities, employability support initiatives and so on. One of the key challenges for us is how we work with other partners who are delivering in this space. For example, with regard to the service delivery agreement model that I talked about earlier, we are working on youth action plans, which involve us in work with councils, third sector organisations, colleges, Jobcentre Plus and others to align the various services and resources that are available.

For example, instead of offering someone in North Lanarkshire a range of incentives from the council, SDS, Jobcentre Plus or wherever, we package up that range within the area and call it something like the North Lanarkshire offer. In a number of areas—Dumfries and Galloway is another good example—we are working with partners to pull together the various incentives and resources that exist so that employers and individuals find it easier to access them. That makes the situation clearer and more streamlined.

The range of initiatives has been a barrier, but we took the opportunity to overcome that and streamline and align the various incentives and resources and package up those offers within geographical areas.

11:15

Katie Hutton: What is happening in the economy is important. If the jobs are not available, it is difficult for people to progress into them. Employers must be willing to offer opportunities to individuals who take part in the programmes.

When we consider achievement rates, we have to be careful not to cream the intake—that is, not to take in people who are bound to increase our achievement rate. We must guard against that, so that we do not leave behind the individuals who most need the support. For us, that is about trying to understand better the dynamics of why achievement rates are better in some areas than in others. We need to ensure that people are not just taking the clients who are the easiest to help.

The Convener: One of the things that the committee is concerned about is the level of

demand in the economy. Ultimately, people who find the most difficulty in getting into employment experience even greater difficulties when there is an economic downturn.

Thank you for giving us your evidence today. We appreciate it. To allow the witnesses to leave, we will have a short break.

11:16

Meeting suspended.

11:23

On resuming—

Scotland Act 2012

The Convener: We will now take evidence from HM Revenue and Customs on its role in implementing the financial powers that arise from the Scotland Act 2012. I welcome to the meeting Mr Doug Stoneham and Ms Sarah Walker from HMRC. I also welcome Colin Beattie MSP from the Public Audit Committee, who is attending the meeting for this item.

Before we move to questions, I invite one of the witnesses to make a brief opening statement.

Sarah Walker (HM Revenue and Customs): Thank you for inviting us to come up and see you today. I am the head of the devolution team in HMRC and my colleague Doug Stoneham is a senior policy adviser in that team. The job of my team is to co-ordinate HMRC's involvement in devolution—in policy development and delivery, in particular—and to lead the department's relations with the devolved authorities on tax policy matters.

HMRC has a very important job to do in delivering the tax provisions of the Scotland Act 2012. There are three major tax changes, which affect income tax, stamp duty land tax and landfill tax. The changes to income tax are expected to take effect in April 2016. They will require us to identify Scottish taxpayers and to separately account for a proportion of the income tax that they pay, which will go to fund the expenditure of the Scottish Government. The Scottish Government and Parliament will make an annual decision on the rates of Scottish income tax, and we will be responsible for collecting tax from Scottish taxpayers at the appropriate rates through the pay-as-you-earn and self-assessment systems. That will include ensuring that employers' and pension providers' systems can cope with deductions of tax at different rates, if necessary.

Although the Scottish variable rate of income tax that was introduced by the Scotland Act 1998 was never used in practice, most employers' standard payroll systems should already include the ability to apply a different rate of tax to employees who have been identified as Scottish taxpayers. However, the Scottish variable rate affected only the basic income tax rate. To implement the Scotland Act 2012, employers' systems will need to be able to apply different rates at basic, higher and additional rates. That means that we will have to work with employers to ensure that they are ready when the new rates come in.

Part of the preparation for the introduction of a Scottish rate of income tax will consist of ensuring that we have correct information on who is a Scottish taxpayer, which means that we will need to know where someone lives so that we can tax them correctly and account for the tax that will go to finance the expenditure of the Scottish Government. We expect to undertake a major publicity campaign and to contact people who, from our records, appear to be Scottish taxpayers, probably in the course of 2015.

The Scottish rate of income tax will not apply to income from savings and investments. We have recently published a technical note that explains the Government's proposals for handling certain consequential issues in other areas, such as the implications for tax relief on gift aid, based on consultations with representatives from the various sectors.

The Scotland Act 2012 also devolves to the Scottish Parliament responsibility for setting taxes on property transactions and on the disposal of waste to landfill. That is expected to take effect in April 2015, at which point we will stop applying stamp duty land tax and landfill tax to transactions in Scotland, and the Scottish Government will start to operate its own taxes in their place. We are already working closely with the Scottish Government to ensure that the transition works smoothly for taxpayers. The legislation allows for the Scottish Government to ask HMRC to operate the devolved taxes on its behalf, or for it to set up its own administrative arrangements.

It has been agreed between the two Governments that the Scottish Government will meet HMRC's costs in implementing the Scotland Act 2012. Those costs will depend on the detailed design of the system and the arrangements that are adopted for operating the new regime. We will work with Scottish Government officials to ensure that they are satisfied that our delivery represents value for money. An HMRC accounting officer will be made specifically responsible for the operation of the Scottish rate of income tax and will be available to give evidence to this or other committees of the Scottish Parliament on HMRC's performance.

The Convener: Thank you very much. In time-honoured tradition, I will start the questioning, which I will then open out to committee colleagues.

The Scotland Bill Committee recommended that "In terms of the issue of the accountability of HMRC ... in relation to the Scottish income tax, the relevant accountable officer at HMRC should be accountable to the Scottish Ministers and should be obliged to attend meetings of committees in the Scottish Parliament"

and that

“the option of a distinctive Scottish tax department within HMRC should be considered”.

In your submission, you say:

“An HMRC Accounting Officer will be made specifically accountable for the collection of the Scottish rate of income tax.”

However, that officer will not be accountable to the Scottish Parliament. Therefore, how will a Scottish finance secretary hold HMRC to account on implementation of the tax?

Sarah Walker: The accounting officer will be available to appear before Scottish Parliament committees and will give the same account of our spending on the Scottish rate of income tax as they would to the Public Accounts Committee at Westminster, so we see the parliamentary accountability as being exactly the same. The accounting officer has not yet been nominated. We expect that to happen in the next few months. That person will be willing to come and explain themselves to this committee.

There are a number of aspects to the relationship with Scottish ministers. We are negotiating a memorandum of understanding with the Scottish Government that covers the relationship between the two Governments in relation to delivery. For example, it covers how we will work together to ensure that the Governments will have complete transparency about the costs of preparations for the Scottish income tax and for its operation once it is in place. That agreement will be signed off by the Joint Exchequer Committee, which is a committee of ministers from both Governments: the Secretary of State for Scotland, the Chief Secretary to the Treasury and the Exchequer Secretary to the Treasury; and Mr Swinney, the Scottish minister. They will approve the memorandum between our two Governments. There are various official joint bodies as well, to which we will report on our operation of the Scottish rate.

11:30

The Convener: Ultimately, the accountable officer will be responsible to the UK Government. Is that correct?

Sarah Walker: Yes. The Scottish rate is part of the UK income tax system—it is one aspect of the tax that is collected from everybody in the UK—and it is difficult to separate accountability for one aspect of the delivery of the income tax system from the rest. Constitutionally, HMRC is a non-ministerial department, but ministerial responsibility in Parliament is taken by David Gauke. That arrangement will not change. However, in so far as we will spend Scottish Government money under the agreement about how the changes will be funded, we will clearly be

called to account by the Scottish Government and Scottish ministers, who will expect answers through the Joint Exchequer Committee.

The Convener: They will of course expect answers, but what control, if any, will the Scottish Government have if it is unhappy with the performance of HMRC in the collection of taxes or the preparation of tax rates?

Sarah Walker: Such issues are part of the negotiation that we are having about the terms of the memorandum of understanding. We will reach an agreement about how to deal with disputes. Obviously, we hope that there will not be disputes. We need to strike a balance between what we need to have control over because of the integrity of the UK tax system and what is specifically attributable to the introduction of the Scottish rate. Where there are changes that are specifically attributable to the introduction of the Scottish rate, we would expect the Scottish Government to have a say in how those changes were made, and we expect to reach agreement on the way in which we intend to implement those. If there are disagreements, they can be referred to ministers on both sides.

The Convener: Will HMRC prepare a timetable for the implementation of key milestones that can then be adhered to for delivery?

Sarah Walker: Yes. Now that the Scotland Bill has received royal assent, we are setting up a formal delivery mechanism that is overseen by a programme board. The board will have representatives not just from HMRC but from the Scottish Government. One of the board's first jobs will be to ensure that there is a comprehensive plan with milestones and agreed dates as to when things have to happen. That plan will also be overseen by the Joint Exchequer Committee.

The Convener: The set-up cost is £45 million. Will it be capped at that figure? Do we have a breakdown of how the figure of £45 million was arrived at?

Sarah Walker: It is an estimate that was made when the bill was published. It is early days yet in terms of our detailed planning for the implementation of the Scottish rate. It will depend on all kinds of decisions. For instance, how will we go about contacting people whom we think are Scottish taxpayers? Do we write to them? Do we write to them once or more than once? How much publicity do we do? All that has still to be discussed and worked through in detail.

There is no formal cap, and we hope that expenditure will be significantly less than £45 million. The estimate is based on experience with similar tax changes in the past, but it was very much a ballpark estimate that will be refined as implementation gets closer.

We have said that £10 million is for information technology changes, but we will not get a firm cost for that work until we start on implementation, which is unlikely to be before 2014.

The Convener: Thank you. I open up the discussion to questions from colleagues.

Mark McDonald: As the convener said, the estimated cost for the implementation of the Scottish rate of income tax is £45 million. Do you have estimated costs in relation to stamp duty and landfill tax?

Sarah Walker: The cost of introducing a Scottish stamp duty and a Scottish landfill tax will depend on what sort of taxes the Scottish Government wants. It has not yet published or announced any details of the kind of taxes that it wants to collect or stated whether they will look very much like the existing UK taxes or will be something completely different. It is therefore difficult to comment on the cost.

The regulatory impact assessment for the bill gave an estimated cost of £3 million to £8 million for the introduction of a new tax, but that was just a guideline figure because the cost will depend entirely on the design of the tax.

Mark McDonald: So you have not provided any cost estimates as part of your discussions with the Government.

Sarah Walker: No, because we have not yet been told what kind of tax the Government wants to introduce.

Mark McDonald: Okay. If the Scottish Government was to ask HMRC to run stamp duty, how easy would that be? Is HMRC prepared to do that—when I say “prepared”, I mean in the background—especially if there are separate rates or a different system is introduced in Scotland compared with that in the rest of the UK?

Sarah Walker: The Scotland Act 2012 is set up in such a way that the Scottish Government can choose whether to ask us to operate the devolved taxes, and we have the freedom to agree or not. The act is completely open: it is up to the Government to say whether it wants us to do that; equally, it is up to us to say whether we feel that we can do it and whether it fits in with our existing business.

It will depend on whether the devolved tax is a lookalike tax that is very much like the existing UK tax, which would mean that we could operate it alongside our existing system and use the resources that we already have. If the Scottish Government asks us to do that, it would be relatively easy for us. If it wants something that has a different framework or different rates, we would have to look at the details of what it wanted to do and decide whether it made sense for us to

try to adapt our systems to operate that or whether we would need to say that it was so different that there would be no point in our trying to operate it. It is very much open at the moment.

Mark McDonald: Are you saying that HMRC could turn round and refuse to operate stamp duty on behalf of the Scottish Government if it decides to do something radically different from what is done south of the border? Might HMRC turn round and say, “No—we’re not interested”?

Sarah Walker: In theory, yes. Obviously, we cannot write a blank cheque for the Scottish Government. There is a precedent. The Northern Ireland Executive asked us to operate a plastic bag tax in Northern Ireland and we turned round and said we could not do that because we simply do not have the right infrastructure. It would be no easier for us to do it than it would be for somebody local to do it, and we said that we would not do it.

In the case of Scottish taxes, we said that we will work closely with the Scottish Government. For example, we have already seconded a member of staff from HMRC to the Scottish Government to help it to develop its plans for landfill tax and stamp duty, so that it has access to some of our expertise as it designs the taxes. In the end, however, it will be up to HMRC management to decide whether to agree to a request from the Scottish Government to operate the taxes. Equally, it is up to the Scottish Government to decide whether it wants to ask us.

Mark McDonald: I am interested in how your scenario will play out over time. Let me be hypothetical. If the Scottish Government initially asks HMRC to run stamp duty, and it is set at the same rate as south of the border, there is no problem. However, if at a future date the party of Government changes or the Government’s policy direction changes, and the policy becomes more radical, HMRC could turn round and say, “We’re not doing this any more.” That could cause difficulties, especially given the short turnaround time required to put in place a whole new mechanism for the collection and application of stamp duty. Do you agree that particular logistical problems would be posed further down the line if that happened after HMRC had initially taken on the running of stamp duty?

Sarah Walker: That scenario could come up. In any agreement on the operation of stamp duty that we reached at this stage, we would hope to be very clear about the terms under which we were taking it on. Theoretically, we could say that HMRC would run it but only for as long as we could run it in a particular way, or that we would be prepared to cope with adjustments but only if we had a certain amount of notice. Such conditions would have to be part of the deal that we do with the Scottish Government.

In any case, for as long as we operate the tax, we will have a responsibility to make sure that any transition is as smooth as it can be for taxpayers. We have a responsibility to taxpayers generally, so if someone else operated the tax in Scotland, we would look to work with them to make sure that taxpayers were not disadvantaged.

Mark McDonald: If the Scottish Government decides to do something slightly different from what is done south of the border—on stamp duty, landfill tax or a Scottish rate of income tax—how easy will it be for HMRC to implement and administer such changes within the required timescales?

Sarah Walker: That really depends on the nature of the differences. We have a lead time up to 2015, which would be fairly tight if we had to set up new systems. We would have to look at the implications for IT and the way in which we deal with correspondence, technical advice and processing the payments and forms. It is quite a complex business.

I am not saying that we could not operate something different by 2015, but we would have to look at the nature of the proposition.

Mark McDonald: You identified payroll changes that would need to be made and said that most companies should at least have made changes to their payroll systems to take account of potential fluctuations in the basic rate of income tax. What is your estimate of the cost to business to make the payroll changes that will be required to cover a Scottish rate of income tax?

Sarah Walker: We do not have a figure for the cost of changes. My feeling is that simply to accommodate the different rate at all three tax rates rather than just at the basic rate would be relatively easy for payroll software, and we would expect that to be built into the annual updates that employers tend to get for their software so that they can cope with all sorts of changes in legislation and taxation.

There will be extra costs if a requirement is placed on employers to show separately on payslips the Scottish element and the UK element of tax deductions. That will be a more substantial change for employers; changing how payslips look is a different proposition and might be more expensive. When the changes were announced, it was said that such a change would be agreed with the Scottish Government, and that its view on whether it wanted to insist that employers show those separate elements would influence the change. That would be the biggest factor in the cost to employers of introducing the new Scottish rate.

John Mason: On that theme, how would an average employee or worker be affected and what

differences would they see? From the notes that we have been given, I understand that tax codes would have an S at the beginning, for example. Could you explain a little about the tax codes and what else would be affected?

11:45

Sarah Walker: When pay as you earn was done on paper, employers would use a set of tax tables that set out the amount of tax to be deducted for each level of income, and then the code. The codes show the amount of tax-free income—they have a number that translates into the income that is not taxed and then, above that figure, the rates in the tax tables are applied. With the Scottish rate, there will be a different set of tables that will apply different rates for people who are liable for the Scottish rate.

As I said, in 2015, we will conduct an exercise to identify as well as we can who should pay Scottish tax. We will put an S at the front of their codes and those codes will be issued to employers in the normal way. Employers will not have to make any judgment or decision about whether somebody ought to be liable for the Scottish rate; they will simply follow the S on the code. The normal approach will be that, if there is an S on the code, that will translate straight into the software, which will trigger the application of different tax tables and the calculation of a different amount of tax to be deducted. The new system goes with the grain of the PAYE system. Employers are used to getting tax codes from us and to putting them into their systems. The codes feed straight through and determine the amount of tax that is deducted.

John Mason: Other things being equal, for somebody in Scotland who had a code of, say, 900, that would continue because the allowances would be exactly the same throughout the UK. The only difference would be that there would be an S at the beginning, and the rate of tax might be higher or lower or the same.

Sarah Walker: Yes. The only slight wrinkle is that, in some cases, the code will include an allowance for an amount of tax that, for example, is owed from a previous year. That is translated into tax-free income using the expected marginal rate. For Scottish taxpayers, the code might be slightly different because a different marginal rate will be assumed. In practice, most people will not notice that.

John Mason: That takes me to my next point, which is about the construction industry scheme for subcontractors. If I understand your technical note correctly, that tax will still be deducted at the UK rate, and therefore, for all those people, the adjustment will be made when they do a self-assessment or through their code. Is that correct?

Sarah Walker: Yes, that is right. The construction industry scheme is really a payment, on account, of the tax that is owed on profits and on PAYE. For the sake of simplicity, we decided to leave that scheme as it is, because any different liability resulting from the Scottish rate will come out when the tax liability is finalised.

John Mason: I accept that, for a UK employer, that is probably simpler because they pay everybody's tax at the same rate. However, would not it make sense, for an entirely Scottish employer, to take it off at the UK rate?

Sarah Walker: I will let Doug Stoneham comment in a minute on the discussions that we have had on that. On all the issues that are covered in the technical note, we have tried to strike a balance between administrative simplicity—to avoid costs to business and to have a simple rule—and getting the scheme absolutely accurate. The conclusion that was reached in the consultations that we held was that it is much easier to have a flat rate across the UK than to try to differentiate.

I do not know whether Doug Stoneham wants to add anything.

Doug Stoneham (HM Revenue and Customs): It is worth setting out that the construction industry scheme involves a flat deduction—I believe that it is 20 per cent, at present—for subcontractors who are registered with the scheme. That is different from PAYE, in which there is the tax-code element and the tax code is taken off and then the marginal rate is applied. The construction industry scheme always involves an estimate of the amount of tax that we expect to be due at the end of the year. In the majority of cases for the self-employed subcontractor, we would still expect them to claim a slight refund or to have a small payment to make at the end of the year. The payment is just meant to be a proxy for the tax that we expect them to pay at the end of the year. I would expect that to continue under the Scottish rate. If the Scottish rate were to be slightly higher or lower, that might just have an effect at the margins.

John Mason: Is that the kind of thing that you will keep under review? At a number of points in your paper you say that, if rates were to diverge, you might have to look at things differently.

Doug Stoneham: We would want to put in place something practical and sensible. If the Scottish rate were to be radically higher or lower than the UK rate, with the result that all subcontractors who are Scottish taxpayers faced either an extremely large payment or repayment, we would, for reasons of practicality, have to look at that. At present, we are trying to get something that is simple for the people who operate the

scheme and for the subcontractors who are in receipt of payments. I believe that the approach that we have taken is the right one at the moment, because we want something simple.

John Mason: Am I right in thinking that all subcontractors fill in self-assessment forms at the moment, and so will not have to fill in extra forms as a result of the changes?

Doug Stoneham: Yes—self-employed subcontractors have to fill out self-assessment returns. No subcontractor should have to start completing a new self-assessment return as a result of the changes. As I said, if the rates vary, that might mean a slightly greater underpayment or overpayment, depending on any variation.

John Mason: On the £45 million cost of implementation, the point has been made that that was the sum when the bill was introduced, so the figure has, potentially, already changed as a result of inflation. Some of us are concerned about how high it might go. Could it go higher with inflation?

Sarah Walker: I cannot rule out the possibility that the cost might increase. The estimate was not a precise estimate that would need to be index linked, but a broad-brush figure that includes an awful lot of elements on which we have not done a lot of work. Equally, as our technology improves and we introduce efficiencies to our system, the cost could come down. We are under a lot of pressure to improve the efficiency of our processes in order to save money; any relevant efficiencies would feed through to that figure. There is not a one-way bet on that estimate. It is the best figure we have at the moment, but we hope that the amount will come in at less than that.

John Mason: Do you see yourselves having to give a solid explanation to the Public Audit Committee, the Finance Committee or Scottish ministers if there are variations?

Sarah Walker: We very much see that: that is the intention behind the formal appointment of an officer who will be accountable for that to the Scottish Parliament. We would expect to give a full account. Further, under the arrangements that are set out in the command paper, the National Audit Office will audit our operation of the Scottish income tax rates, and its reports will be available to the Scottish Parliament.

John Mason: That takes care of my questions, but I would like to make a comment. I understood that, under the Scotland Act 1998, if either Scotland or the UK introduces new legislation, the Administration that does so must pay the associated costs. It is still my opinion that, according to the 1998 act, that £45 million should be an expense for Westminster, but I accept that that is not a question for you.

The Convener: I cannot but agree.

The estimate of £45 million seems to be quite rough—it could be millions of pounds out, either way. However, you have suggested an annual operating cost of £4.2 million, which seems to be a fairly precise figure. How did that come about?

Sarah Walker: That estimate is based on the experience of operating other kinds of tax. It is easier to predict an on-going running cost than a capital cost, because it is based largely on the number of people who move into or out of Scotland and therefore become Scottish taxpayers or stop being Scottish taxpayers, and the cost of dealing with them.

Of course, it will be four years before we start operating the system, and there is a lot of work to be done before we set up the organisations and processes that will deliver it. We will be looking to bring those costs down.

Paul Wheelhouse: My colleagues have addressed many of the points that I wanted to raise. It was helpful to hear the definition of a Scottish taxpayer—that has afforded me greater clarity than had hitherto been in my possession.

Paragraph 15 on page 5 of your technical note refers to the fact that, ironically, a different rule would apply to MPs, MSPs and MEPs, so that no matter how much time they spend out of Scotland, they will be treated as Scottish taxpayers. Have you considered other groups of people who might be affected by similar issues, such as high-fliers in the information technology or financial services sector who have second homes in London or elsewhere in the UK, and who live in Scotland at weekends but commute to work during the week to fulfil their managerial responsibilities or use their technical expertise? Is there sufficient flexibility for people who are registered with doctors in Scotland, whose children are being educated in Scotland and who regard themselves as being resident in Scotland, but who work outside it, to pay their taxes to Scotland?

Sarah Walker: Such people would be defined as Scottish taxpayers. I will let Doug Stoneham come in on that—he is the expert—but the intention is that such people would count as Scottish taxpayers because their main base would be in Scotland, regardless of the fact that they leave Scotland to work. The approach is not based on counting hours or days; it is a matter of where a person's home or base is. Under the rules, we would view that person as a Scottish taxpayer.

Doug Stoneham: That is absolutely right. In crafting our definition, we tried to simplify the definition under the Scottish variable rate, under which a majority of people would have had to count the number of days they spent in Scotland and in the rest of the UK. On the scenario that has

been outlined, it is clear that things will be more complicated if someone has more than one place of residence, but we would expect to consider a number of factors, which we will set out in guidance prior to introduction of the rate. We would consider, for example, whether the person's family lives in Scotland, whether they are registered with a doctor or dentist in Scotland, whether all their correspondence goes to Scotland and whether their bank account is registered in Scotland. They may be in London for just three or four nights a week to work there. In those circumstances, their main place of residence would be in Scotland, so they would not need to count the number of days they spend in London and would therefore be a Scottish taxpayer.

Paul Wheelhouse: You envisage such factors being clearly set out in the guidelines that are published.

Sarah Walker: Absolutely, we do.

Doug Stoneham: Yes. We certainly intend to publish guidance well ahead of the introduction of the rate to assist people in making such decisions.

Paul Wheelhouse: That was my only question. Thank you very much.

Gavin Brown: I have a couple of brief questions. If I heard correctly what was said, you will write to people whom you think will be Scottish taxpayers in 2015. Is there a timetable for engaging with employers and businesses, for example, about the changes that they will have to make? I presume that that will happen before 2015.

Sarah Walker: We are already working with a number of representative groups, including employers, pension payers, accountants, lawyers, trade unions and other interested bodies. Those consultations informed the decisions that we published in the technical note, for instance. We also have a well-established process for working with the software providers who develop payroll software for employers. A large proportion of employers use standard payroll packages—from Sage, for example. We work with those producers to ensure that all the right tax provisions are built into their software. We have started that work already and are currently giving explanatory talks to employers organisations.

However, it does not make sense to do a lot of the work too soon. There is no point in our giving detailed software specifications to employers and software providers now, because things may change by the time that it is needed in 2015 or 2016, which would mean that they would have to change the software again. The sequencing of making our own IT changes and asking employers to make their changes is important. We must ensure that we make changes at the right point so

that they fit into employers' software and it can be operated straight away.

Gavin Brown: Okay.

My other question follows up on stamp duty land tax and landfill tax. You are not in a position to give formal estimates at the moment, because no tax is in place so the costs of running it cannot be given, but from your dialogue with the Scottish Government, is there any hint of when you might get information about that? Is such information expected imminently? Has the Scottish Government said that there will be such information next year? From HMRC's point of view, are things simply unclear at this stage?

Sarah Walker: My impression is that the information will be available fairly soon, but you would have to ask the Scottish Government for details.

Elaine Murray: I am interested in residency issues, partly because I represent Dumfriesshire, which is near the border. Some people live in Dumfries and Galloway and work in Carlisle, and some people live in Cumbria and work in the eastern part of Dumfries and Galloway. What is the legal requirement on people's advising HMRC of their current address? Do people suffer a sanction if they do not tell HMRC that? Will a sanction be brought in?

12:00

Sarah Walker: My understanding is that there is no legal requirement for somebody to tell us their address. We need to have an address for correspondence, but that is not necessarily what we call somebody's main residence, if they have more than one property. That is why we must go through the process of contacting people—starting with those who appear from our records to live in Scotland—to ask whether we have their correct address.

We will need to do something to determine whether people who live in Carlisle or who have given us an address in Carlisle or elsewhere in the UK should be Scottish taxpayers. We do not plan to write to everybody in the UK to ask whether they should be Scottish taxpayers, but we will need to think through the arrangements, part of which will be general publicity.

Elaine Murray: I am interested in whether there is a sanction for not giving you the correct information. If the tax rates on both sides of the border were similar, people would have no particular reason not to be honest about the side of the border on which they lived, but if the tax rates were to differ, it might be financially advantageous for somebody to make out that they live on the side of the border with the more

advantageous tax band when they do not really live there. Would a sanction prevent people from doing that?

Sarah Walker: There are penalties for not paying the right amount of tax. If somebody were to misinform us deliberately about where they lived or whether they should be a Scottish taxpayer, we would have the option of imposing penalties for not having declared information properly and therefore for not having paid the right amount of tax.

Elaine Murray: Do you cross-reference your records with council tax records, for example?

Sarah Walker: We need to do work between now and the implementation date to see what third-party information we could helpfully check against. It would make sense for us not to base our activity just on the addresses that we have and on what taxpayers tell us. There are several third-party sources of information about people's addresses, which we would look to use to cross-check information.

Doug Stoneham: It is worth adding that people such as those in Dumfriesshire and Carlisle were precisely the people whom we thought of in designing the definition as we have. If somebody says that they live in Dumfries but work nights in Carlisle, they will not have to say which side of the border they were on at midnight—they will just have to consider whether their main place of residence is in Dumfries; if it is, they will be a Scottish taxpayer. We have tried to simplify arrangements for people who might cross the border daily.

Sarah Walker: If, the day after a higher tax rate in Scotland was announced, a lot of people suddenly told us that they had changed their address to Carlisle, we would notice that and would operate the right compliance checks.

Elaine Murray: I am amused that MSPs are defined as Scottish taxpayers. I jolly well hope that we all live in Scotland.

Will the continuing cost of £4.2 million principally cover additional staff? I know that HMRC struggled this year with tax collection and that the requirement to submit tax declarations online by 31 January had to be suspended. Do you expect to require additional staff?

Sarah Walker: A big element of the cost will relate to additional staff to process changes of address from people moving in and out of Scotland and to process consequential tax changes. Sending extra coding notices to people will also have a cost, as will ensuring that contact centres are available to deal with more phone calls from people who want to make inquiries.

Elaine Murray: Do you have any idea how many additional staff will be required?

Sarah Walker: I do not have a specific number.

The Convener: You will have experience of cross-border issues in relation to Northern Ireland and the Republic of Ireland, although those are obviously not the same country. Will that experience help you with the cross-border issue here?

Sarah Walker: We will certainly draw on experience of operating across the border between Northern Ireland and the Republic of Ireland. A consultation is under way on the definition of UK residents, which is a more complex and difficult definition to operate than that of Scottish residents, because of international borders. The definition of Scottish residents will be simpler than the definition of UK residents. However, you are right that there is experience of people who live on one side of that border and work on the other. We will ensure that we learn whatever lessons we can from that.

The Convener: There are also people who live in London and the Cayman Islands.

Sarah Walker: Indeed, there are.

The Convener: That kind of cross-border issue has been a major problem for HMRC for many years.

Paul Wheelhouse: I appreciate that, because of the uncertainty about costs, which we have discussed, you will not be able to say exactly how many additional posts you will need at this stage. However, as a principle, will those jobs be located predominantly in Scotland? Over the years, there have been concerns about HMRC and other Government agencies withdrawing jobs from local centres where people can go for advice. Will there be opportunities to ensure that the jobs are located in Scotland, even if it is just in the cities, so that people have local access to advice on issues such as residency, rather than having to contact centres outside Scotland, in which staff might not be familiar with the geography or other issues?

Sarah Walker: I cannot give a specific undertaking about jobs being located in Scotland but, given that the Scottish Government will be financing the jobs, I am sure that it will press us hard to ensure that there are jobs in Scotland. I can make two points. The first is that we have a local network of inquiry centres and a policy of covering the whole UK so that face-to-face advice is available if people want it. Secondly, a larger proportion of our staff dealing with tax matters across the UK are located in Scotland compared with the relative population. I think that 13 per cent of our staff are in Scotland. We have major offices in places such as East Kilbride, Bathgate and

Livingston, which deal with tax for people across the UK, including England. So although we are centralising a lot of jobs, many of them are being centralised in sites in Scotland.

The Convener: Yet MSP tax returns go to Cardiff.

Sarah Walker: True.

Elaine Murray: Then they get lost.

The Convener: Yes. They do not just get lost—they certainly do not get accurately assessed.

Mark McDonald: I gather from your answers to Elaine Murray that there is currently no requirement on people to disclose residency and that that will not become a requirement per se under the new arrangements. At present, penalties that are applied in relation to tax are based on income. People are legally required to declare their correct income so that they can be tax banded appropriately, but the new tax bands will be based on residency, rather than income. If there is no legal requirement to disclose residency, and if the banding is applied to residency rather than income, how easy will it be to penalise people for not paying the correct tax?

Sarah Walker: We have not yet developed the whole regime. We have not absolutely ruled out a legal requirement on people to tell us where they live. I think that that would be fairly difficult to enforce, as we would have to ensure that we caught people who did not tell us the day after they moved house. I would prefer not to take that approach.

On penalties, the most important thing is for us to ensure that we get the tax right and, if we find out later that somebody has not paid the right amount of tax, to collect the correct underpayment. We will need to think about the issue of penalties between now and implementation. It is still an open issue.

Doug Stoneham might be able to add something.

Doug Stoneham: It is worth setting out that if, for example, we opened an inquiry into the return of a self-assessment taxpayer who said that they were not a Scottish taxpayer and we thought that they might be, we would consider that as part of the process. The amount of penalty that they were charged would be assessed on the amount of extra tax that they were required to pay, which could be mitigated for a number of reasons. If it were determined that they were or were not a Scottish taxpayer when they had declared the opposite, that would be factored in.

The Convener: Michael McMahon has a question.

Michael McMahon: I wanted to ask about residency, but those issues have been covered by you, convener, and by the supplementaries to Elaine Murray's question. I will just state that I wonder whether we need a separate section for people who are resident abroad—in Bermuda, New York, the Cayman Islands or wherever—and want to come to Scotland every now and again and tell us how we should pay taxes in this country.

The Convener: Thank you for that, Michael. Colin Beattie, would you like to ask some questions?

Colin Beattie (Midlothian North and Musselburgh) (SNP): Thank you for the opportunity to participate. I have a couple of questions, and I emphasise that the Public Audit Committee has taken no position as regards what the outcome of the questions might be.

The first question concerns set-up costs, which members have touched on already, and the issue of accountability to the Scottish Parliament. I understand that that is currently being negotiated and will be incorporated into the memorandum of understanding, so the full details might not yet be available. Other than that, would HMRC welcome an independent audit of the expenditure, either by the National Audit Office or by Audit Scotland?

Sarah Walker: It is not quite right to say that the relationship with the Scottish Parliament is governed by the memorandum of understanding. That concerns our relationship with the Scottish Government. The relationship with the Scottish Parliament stands with what was said in the command paper that was published at the time that the Scotland Bill was published. It said that we would appoint an additional accounting officer who would be accountable to the Scottish Parliament and its committees for the expenditure on the Scottish rate.

It has been said that the National Audit Office will publish a separate report specifically on—or will cover in its annual report on HMRC—expenditure on the Scottish rate of income tax. Obviously, that report will be available to the Scottish Parliament to comment on when our accounting officer comes to give evidence to you.

Colin Beattie: I see that the matter would be covered in your annual report to HMRC in connection with performance. The question in that regard is that of accountability and transparency in the way that the National Audit Office is independently auditing the expenditure—I am talking about the £45 million set-up costs, specifically—and how that would be reported back to the Scottish Parliament. At the moment, there is a clear route by which Audit Scotland can perform

that function. The Public Audit Committee is less clear how the National Audit Office can do that.

Sarah Walker: I am afraid that I do not know the details of exactly how that kind of relationship works, except to say that the National Audit Office will publish a report that will be available to the Scottish Parliament. Were anything beyond that required, and were there proposals that you wanted to make, ministers would need to consider how that would work.

Colin Beattie: That area would certainly bear a little more examination.

My second question concerns the annual running costs. Earlier, there was a discussion about collecting taxes effectively, but there is also a question around the costs of collecting taxes and also, possibly, stamp duty and the landfill tax. What are your views on the National Audit Office or Audit Scotland undertaking audits in that regard?

Sarah Walker: The National Audit Office will report specifically on our operation of the Scottish rate of income tax and the on-going operational costs of that. That would be covered in the arrangements that we have already discussed. As for the arrangements for the operation of the devolved taxes, if we are asked to operate the devolved taxes on behalf of the Scottish Government, that would be part of the agreement that we reach with the Scottish Government. If that were to include some sort of role for Audit Scotland in looking at expenditure, that would be perfectly reasonable. Clearly, however, that would be a matter for agreement between ourselves and the Scottish Government.

Colin Beattie: It seems clear that, with an annual expenditure of £4.2 million, the income tax side is an area of public expenditure that would require some sort of auditing, and the mechanism around that would need to be agreed.

Sarah Walker: Absolutely. The provision for the National Audit Office to report specifically on that expenditure is meant to deal with that; we accept that point.

12:15

The Convener: HMRC is consulting external representatives, including employers, payroll professionals, accountants and tax advisers on the implementation of the Scottish rate. Will the results of that consultation be placed in the public domain?

Sarah Walker: The main results of that are contained in the technical note that we have published. For example, with regard to the way in which we are treating gift aid donations, there is an issue about whether you want to allow a charity

to reclaim the tax on a gift aid donation at the correct rate, depending on whether the taxpayer is liable at the Scottish rate—which might or might not give them a little bit more relief—or to allow it to reclaim gift aid from everybody at the UK rate. We discussed that with charities, and they told us that, because of the administrative complexity of trying to identify the status of each individual donor, they were happy to have a flat rate for all gift aid donations and take a risk that that might make a slight difference to the amount of revenue that they got, rather than trying to get a precise answer. Those sorts of consultations are reflected in the decisions that have been announced in the technical note.

The Convener: Will any further consultations be published?

Sarah Walker: One outstanding point, which, again, is mentioned in the technical note, is how we deal with certain types of pension contributions. We have not yet satisfied ourselves and the industry that we have got a solution for giving relief for pension contributions that minimises the cost for pension schemes. The issue is similar to the one that arises in connection with gift aid, as identifying the rate of relief that is due for each individual taxpayer is potentially expensive and difficult for the pension schemes to do. In that case, we have agreed to continue talking to the industry to see whether there is a better solution than that which we have come up with. The results of those discussions will be published as soon as we have come to a conclusion.

Doug Stoneham: It is worth adding that the technical note is available for public comment—I think that we have given people until the end of August to get back to us. Following that, we will need to introduce some secondary legislation to implement the legal aspects of some of the changes. We would expect to consult on that legislation prior to its introduction.

The Convener: Thank you for answering our questions; it is very much appreciated.

I ask our witnesses and members of the public to leave, as we will now move into private session.

12:17

Meeting continued in private until 12:28.

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e-format first available
ISBN 978-1-4061-9008-3

Revised e-format available
ISBN 978-1-4061-9019-9

Printed in Scotland by APS Group Scotland