OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Thursday 12 May 2022

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 12 May 2022

CONTENTS

PUBLIC AUDIT COMMITTEE
14th Meeting 2022, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Sharon Dowey (South Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Craig Hoy (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jonathan Athow (Her Majesty's Revenue and Customs)
Stephen Boyle (Auditor General for Scotland)
Jackie McGeehan (Her Majesty's Revenue and Customs)
Lucy Nutley (Mazars LLP)
Rebecca Seidel (Audit Scotland)
Graham Simpson (Central Scotland) (Con)
Alyson Stafford (Scottish Government)
Fiona Thom (Scottish Government)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 12 May 2022

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the 14th meeting of the Public Audit Committee in 2022. Under the first item on our agenda do we agree to take items 4, 5 and 6 in private?

Members *indicated agreement.*

Section 22 Report: "The 2020/21 audit of South Lanarkshire College"

09:00

The Convener: I welcome Graham Simpson, who is an MSP for Central Scotland and who joins us for item 2, which is consideration of the 2020-21 audit of South Lanarkshire College.

I am pleased to welcome the Auditor General for Scotland, Stephen Boyle, to give evidence to the committee. We are also joined by Rebecca Seidel, who is a performance audit and best value manager at Audit Scotland, and by Lucy Nutley, who is a director at Mazars and who I think carried out the audit on the ground at the college.

I invite the Auditor General to give us a short opening statement.

Stephen Boyle (Auditor General for Scotland): Thank you, convener. Good morning, committee.

I have prepared a section 22 report on the 2021 audit of South Lanarkshire College. The report highlights governance issues at the college, which resulted in areas of non-compliance with the "Code of Good Governance for Scotland's Colleges".

In July 2021, the Scottish Funding Council was alerted to potential governance issues and strained relationships at the college and decided to commission an independent review.

The college cancelled board and committee meetings in September and October 2021. That led to the college being unable to fully comply with the code of good governance. The board and the audit and risk committee were not quorate on occasions during the year. There were no formal meetings of the board for five months, or of the audit and risk committee for six months. The college was not able to meet its requirement to report on committee meetings to the regional strategic body. There were delays in finalising and approving the minutes of board and committee meetings, and in making them publicly available. There were also delays in approving and appointing an internal audit function and in approving the internal audit plan for 2021-22.

On 30 November 2021, the college board agreed to commission two independent investigations into complaints and grievances against the chair of the board and the principal and interim clerk to the board. At the same meeting, the board agreed to suspend the principal and interim clerk to the board and accepted the offer of the chair of the board to voluntarily step aside from their role while those investigations were being conducted. Those investigations have yet to conclude.

The college has taken steps to address the concerns raised by the external auditor and to ensure that it is now, again, compliant with the code of good governance. It has also developed a governance improvement plan. The appointed auditor and I will monitor the progress that the college makes in restoring good governance.

Finally, I will highlight two specific areas where I will be limited in the information that I can provide to the committee. Those are the content of the review of governance that was commissioned by the Scottish Funding Council, and the scope and conclusions of the independent investigations into complaints and grievances, which, as I mentioned, remain in progress.

As the convener noted, I am joined by the appointed auditor, Lucy Nutley, from Mazars, and by my colleague Rebecca Seidel, from our performance audit and best value team. Between the three of us, we will look to answer the committee's questions.

The Convener: Thank you very much, indeed, Auditor General. I also thank you for reminding us that active investigations are still taking place, which might make for some limitation in relation to the areas that we can probe into this morning. However, there is still an awful lot in the published report that we will seek further evidence on in the next hour or so.

The deputy convener of the committee, Sharon Dowey, will open up the questions.

Sharon Dowey (South Scotland) (Con): Good morning. Paragraph 10, on page 4 of the report, states:

> "Following discussions with ... the Lanarkshire Board ... the SFC commissioned a review of governance at the start of July 2021."

What prompted the Scottish Funding Council to undertake that review?

Stephen Boyle: We will do our best to share the information that we have. I will invite Lucy Nutley to come in to update the committee in a moment.

As we set out in the report, upon the conclusion of the review by the independent investigator, the information was shared in a number of phases with the principal and members of the management team and the board before a full consideration of the report in redacted form towards the end of 2021.

As was noted, concerns about relationships and grievances were prompted by both the Lanarkshire board and the principal of South Lanarkshire College, who raised concerns with the Scottish Funding Council to ask for its support. Lucy Nutley will say a bit more, if she can, about the nature and scope of that work.

Lucy Nutley (Mazars LLP): To reiterate what the Auditor General said, I understand that the SFC undertook that review due to concerns that had been raised with it by the chair of the regional strategic body and the principal of South Lanarkshire College.

Sharon Dowey: Is it normal for a body to take out a governance review and then not share its findings with an auditor?

Stephen Boyle: There are particular circumstances here. As we note in the report, much of the independent investigation, which is the Scottish Funding Council's investigation as opposed to that of the college—our audit work and our report today are about South Lanarkshire College as opposed to the Scottish Funding Council—relates to personal data. It clearly matters that, where possible, bodies should be transparent, but I am tempering my remarks somewhat because much of the report concerns what could be deemed to be personal data, which it may not be appropriate to share. However, in order to arrive at a stronger position and more effective governance for the college, the college board will need to be satisfied that it is aware of all the relevant factors that led to a deterioration in effective governance during the year.

We also understand that the college will shortly consider its governance improvement plan, which ought to satisfy it that it has addressed all the relevant content of the investigation. To assure the committee, we will be following the college's progress against that governance improvement plan through the work of Mazars over the course of the year.

Sharon Dowey: Paragraph 11, which is also on page 4 of the report, states:

> "The SFC shared a redacted copy of the report with the principal and chair once it was finalised in August."

As we heard, it was highly redacted. The paragraph then states:

> "Other board members and the senior management team received a redacted copy of the report in October and December 2021 respectively."

Paragraph 12 states:

> "The redacted SFC report was formally considered by the board in December 2021."

Do we know why it took them until December to formally consider the report?

Stephen Boyle: There is a combination of factors. Lucy Nutley will give an appointed auditor perspective.

The investigation influenced the events that followed in terms of the availability of the chair of the board, the principal and the clerk to the board. That meetings were cancelled during the period will no doubt have led to one reason why it took so long. However, that is not really an excuse. Good governance requires that meetings are held, that scrutiny is effective and that the board can satisfy itself at appropriate regular intervals that it is discharging effective scrutiny of the college's affairs.

As I highlighted in my opening remarks, the board and the audit and risk committee did not meet for significant periods of five and six months of the year, which led to the overall conclusion that they were not meeting the code of good governance for colleges. That is probably as much as we are able to say. It may be a line of questioning for the committee to explore directly with the college. However, I will pause for a second as Lucy Nutley may wish to add to that.

Lucy Nutley: There was a lot for the board to get through at the meeting in November, as there had been quite a gap, so the December meeting was the first normal meeting, if I can use that phrase, at which business was undertaken. That is why it took so long.

Sharon Dowey: In paragraph 12, the report states:

> "the independent auditor notes in their annual audit report that they 'have no assurance that the action plan covers all the recommendations made, due to the level of redactions in the [SFC] report.'"

Has the Scottish Funding Council reviewed the action plan? Is it happy that all the action points have been covered? Is it involved in making sure that the action points are actioned?

Lucy Nutley: I understand that verbal assurances that the governance improvement plan covers all the recommendations in the unredacted and redacted versions of the report have been given to the South Lanarkshire College board, but I have had no such assurances from the SFC.

The Convener: Colin Beattie has some questions in an area that the committee is very interested in.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Auditor General, I want to fully get my head round the different investigations that are going on. I understand that the SFC started a governance review in July 2021, which it delivered in August 2021—in other words, it did so extremely quickly. Do we know what the terms of that investigation were?

At the extraordinary board meeting on 30 November 2021, it was agreed to commission two independent investigations. I assume that one of those was on the chair of the board, with the other being on the principal and the interim clerk. It is now May 2022. How did the SFC manage to do its governance review in four weeks, while, months after the other investigations were commissioned, nothing has come out the other end?

Stephen Boyle: I will take your questions in reverse order. I will answer the question about the two latter investigations, and I will ask Lucy Nutley to update the committee further, as much as we are able to, on the scope of the SFC investigation and the timing of it.

Following receipt of the SFC review, the college board considered the redacted version of the SFC review. At that point, it decided to suspend the principal and the interim clerk to the board. The chair of the board also voluntarily stepped aside at that point.

As you said, two independent investigations were commissioned, both of which are being undertaken by a law firm. The first investigation is reviewing matters relating to the chair of the board, while the second covers the principal and the interim clerk to the board. We have been closely monitoring the progress of those investigations. When we inquired in advance of today's meeting, we were told by the college that the investigations are still on-going. In other words, they have not concluded.

It is probably difficult for us to say much more about the nature and timing of those investigations, which relate to individuals. We know that the timing and duration of such investigations can vary, and that the scope can broaden, depending on what investigators may find while they are carrying them out.

It is my expectation that we will carry out further work on the matter once we are clear about the conclusions of those investigations. I anticipate that we will report on that during the 2021-22 audit of South Lanarkshire College.

I invite Lucy Nutley to update the committee further on the SFC investigation.

Lucy Nutley: I understand that the SFC review was a lot more limited than the current investigations, which would explain why it was carried out much more quickly. It is probably inappropriate for me to comment on the content of the redacted report in the terms that it was shared with me, but I understand that the terms of the SFC review were a lot narrower than those of the current investigations, for the reasons that the Auditor General set out.

Colin Beattie: Without looking for the conclusions, which clearly are a different issue, do we know what the terms and scope of the different investigations were?

09:15

Lucy Nutley: I have seen the scope of the SFC review, but I have not seen the scope of the independent investigations as yet.

Colin Beattie: Can you share the scope of the SFC investigation?

Lucy Nutley: It is the SFC's report, so I would need to speak to the SFC before that could be released.

Stephen Boyle: As we set out in paragraph 10 of the report, the SFC's decision to undertake an investigation followed discussions with the principal of the college and the regional Lanarkshire board. We talk about

"potential governance issues and strained relationships"

in the college. The SFC's independent investigation was carried out by an experienced college professional from elsewhere in the UK. You can probably tell from the nature of the investigation that much of it contains personal data about individuals. We were therefore limited in the extent to which we could set that out publicly in the report while other related investigations are on-going.

Colin Beattie: However, we are entitled to look at the outcomes of those strained relationships and the impact on the board and the functioning of the college.

Stephen Boyle: That is absolutely right, and that is really the basis of the section 22 report that we are considering today—the aim is to highlight publicly that, although investigations are on-going, governance in South Lanarkshire College did not operate in accordance with the expected standards. We note that meetings were not being held, minutes were not being published and an internal audit function was not in place as expected, although investigations are being carried out in respect of those matters.

Colin Beattie: So you are satisfied that what we can see visibly as the impact of the poor governance is manifested in your report.

Stephen Boyle: Indeed. We set out that, for a period during 2020-21, South Lanarkshire College's governance was not operating as intended and the millions of pounds of money for which the college is responsible was not being overseen properly, in accordance with the code of good governance for Scotland's colleges. It is important that I say that, as we note in the report, the college has taken steps to rectify the areas that we highlight that were non-compliant with the code of governance. The college now has an internal audit function and the board is meeting and is publishing minutes and so forth. Nonetheless, as Mazars and Lucy Nutley considered prior to the signing of her audit opinion and consideration of the governance statement, the college was not compliant for a period during 2020-21.

Colin Beattie: To go back to the investigations, I was going to press you on the timescales for completion but, from what you say, it seems that you do not really have a grasp of that at this time.

Stephen Boyle: As I mentioned, we continue to engage with the college through Mazars to track progress. However, other than reporting to the committee today that the investigation is on-going, there is little else that I can offer the committee, unfortunately. I suspect that, as is the case with such things, the investigation will take as long as is deemed necessary. It is a matter for the college to consider the conclusions and to give an update when it can do so.

Colin Beattie: The two internal investigations are being handled by the same law firm—it is the same investigation, really.

Stephen Boyle: That is our understanding. The same law firm is carrying out both investigations.

Lucy Nutley: There are two separate teams, though.

Colin Beattie: Okay.

I have one final question. Obviously, we do not have the results of the independent investigations and you cannot comment on the conclusions of those. Will you be able to give us more comment once the investigations have been completed? Will you come back to the issue?

Stephen Boyle: As I set out in the conclusion of the report, given the nature of investigations and the circumstances, which are material to good governance at the college, I commit to undertaking further audit work on the matter.

Mazars will complete its 2021-22 financial year audit of South Lanarkshire College and report publicly through its annual audit report. On seeing the conclusions of the report, I will decide whether to do another section 22 report, but that seems more likely than not, given that this one feels like an interim report.

The Convener: Lucy Nutley, you said that the same law firm is carrying out the two independent investigations with separate teams. How does that work? Is there a Chinese wall between them, or does it not matter that the two investigating teams are from the same firm? Is it intended that they all come together?

Lucy Nutley: I am not aware of all the details, but I understand that Chinese walls will be in place. The college deemed it important that the independent investigations were undertaken by two separate teams, with one looking at complaints about the chair and the other looking at those about the principal and the clerk to the board.

Stephen Boyle: On the appointment of the investigators, the college will want to be satisfied that the appropriate scope has been agreed and about how the investigations will be discharged. We can surmise that the law firm will have offered assurances about that.

Again, it is a matter that we have not audited thus far, but there is an opportunity for it to be reported on publicly as part of our work next year and for the committee to be assured on that point.

The Convener: We will need to consider what point is the right juncture to bring in the accountable officers, if that is the route that we decide to go down. I will bring in Willie Coffey at this point.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, Auditor General. I want to drill down a wee bit into the non-compliance issues that you raised. I realise that you might be limited in what you can tell us; nevertheless, we have to try to get to the bottom of it.

Your report and comments have told us that the audit and risk committee and the board suddenly stopped meeting around May or June 2021, and that there were no more formal meetings of either body. What explanation has been given for that? The staff and the wider student body must surely have been aware of that and asked questions about it. Were any explanations given to anyone about why they suddenly stopped meeting?

Stephen Boyle: Good morning, Mr Coffey. I will ask Lucy Nutley to set out the circumstances that we know about for the board and the audit and risk committee. One aspect that Lucy might want to elaborate on is the fact that there was a change of membership during the course of the relevant months. People stepped down and new members were appointed, and we have identified factors about new member induction that might have had an influence on the situation. Of particular relevance is the fact that the interim clerk to the board and the committee was part of the review and the subsequent suspension, which will no doubt have influenced the timing of meetings and people's availability to allow them to take place. Lucy will set that out in more detail.

Lucy Nutley: I can comment only on the audit and risk committee meetings, as those are the ones that I am invited to, as standard. The September meeting was cancelled with about three hours' notice, and no explanation was given for why it was cancelled. I understand that the other meetings that were cancelled in that period were also cancelled at relatively short notice, but perhaps not as short as three hours.

Willie Coffey: The board and committee did not meet again for a considerable period. Is it correct that five or six months elapsed before they decided to meet again?

Lucy Nutley: It took a while to manage diaries and to get to a point at which all board members could meet, which they did on 4 November.

Willie Coffey: There is a vice-chair, surely, and the audit and risk committee is pretty autonomous and able to act on its own behalf and of its own volition. Why on earth did the board and committee not meet? I cannot understand why the meetings did not continue. As you have said, that is a requirement of good governance. Is there a vice-chair? Why were meetings not convened with the vice-chair stepping in?

Stephen Boyle: Lucy Nutley might want to comment further.

There is a vice-chair, who has stepped in as part of the chairing arrangements while the chair has voluntarily stepped aside because of the investigation. There has been turnover among board members, which has contributed to timing problems.

However, that does not offer a satisfactory explanation for why effective governance in the college fell below the standards of the "Code of Good Governance for Scotland's Colleges". You are quite right to say that an audit and risk committee plays a key role in overseeing the effective running of any organisation with regard to public reporting, transparency, oversight of risk, internal controls and so on. It is therefore unsatisfactory that that committee did not meet for six months.

Willie Coffey: Do the minutes—I presume that there are minutes—from the meetings when it met subsequently refer to the gap? Has anyone explained the reason for the gap? Did the audit and risk committee catch up on the business that had not been done in the six months that had elapsed, and did it report that formally in the minutes? Were the minutes published?

Lucy Nutley: I can give you some background on that. The college documents require that there are three members of the audit and risk committee. One member resigned from the board during 2021 and then, as the timeline in appendix 1 of the report shows, the audit and risk committee chair resigned from the board on 7 September 2021. That took the audit and risk committee's membership to one, which meant that it was unable to meet without additional members being co-opted, which did not happen. There were too few members. The college was aware that a number of members were due to end their tenure at the end of September, and I understand that a decision was taken to wait until new members were in place, and then to use them to bolster the audit and risk committee membership.

Willie Coffey: I understand that. Has anyone assessed the wider impact on students and staff? Is an examination of that within your scope? Is the board looking at that issue? Has anyone come to a view about the impact that the hiatus has had?

Stephen Boyle: In terms of our work, there is also an important role for the Scottish Funding Council as part of the arrangements. It is responsible for overseeing the performance of the college. Our work looks at accountability in relation to use of public funds, compliance with financial reporting requirements, and governance arrangements. In the report, we consider non-compliance with the code of good governance.

The role of the board is also clear. Again, it needs to be satisfied that the college is functioning properly and can evidence that through effective scrutiny.

The report sets out the governance issues that we found but—pending the conclusion of work on the investigations—we have not seen that they have directly impacted on the effective functioning of the college. Inevitably, however, there will be concerns among staff, students and the local population about the effective running of the college and what the governance issues might mean in that regard.

Willie Coffey: The report also says that

"Papers for board and committee meetings held after June 2021 were not publicly available on the college's website at the point the auditor signed their opinion on 24 March 2022."

Has that been corrected? Is material now published online so that people can see what is going on in the college?

Stephen Boyle: Our understanding is that relevant material and minutes are being published and are available online. However, it is not acceptable to have a diminution in transparency about how public money is being used by the college. That clearly contravenes the requirements of the good governance code.

Craig Hoy (South Scotland) (Con): Good morning. I have some questions about the composition, roles and capabilities of the board. However, before I do that, I have a technical question.

On 30 September, the tenure of four board members ended, and the board's membership therefore fell below the numbers that are required by statute. However, the board met on 4 November. Given that it was not statutorily competent at that point, what status did that meeting have?

09:30

Stephen Boyle: The college's standing orders set out the appropriate quorum of members for a competent meeting.

I will say something about the nature of appointments for Scotland's colleges. The chair is appointed by the Government and the public appointments process is followed, but the board is responsible for the appointment of individual members of the committee. The duration and endpoint of an individual member's term is known, so there ought to be reasonable anticipation of when the individual tenure of a member is coming to an end. Public bodies, including colleges, can take reasonable steps in anticipation of that, so that they preserve good governance and have members in place to support the functioning of the college's business. That was clearly an issue in the circumstances that we set out in the report.

Lucy Nutley might want to comment more on the detail of how that affected the meeting to which you referred.

Lucy Nutley: As the Auditor General said, the end of tenure was known. The college had taken appropriate steps, in line with all the processes that are required, to have six new non-executive members waiting in the wings and ready to be appointed. However, due to the cancellation of board meetings, they were not ratified by the board at the point when the other members left. The regional strategic body—the New College Lanarkshire board, which is known as the Lanarkshire board—approved the six new non-executive members in October 2021, then the South Lanarkshire College board approved them formally at the start of the meeting on 4 November 2021.

Craig Hoy: One would assume that the board is fully aware of its role and responsibilities for good governance. The board was appointed on 4 November but members were not fully inducted until the beginning of February 2022. Will you talk me through what the normal induction process would cover and what the risks are of having board members who have not been through that process?

Lucy Nutley: The good governance code recommends that inductions be done promptly following appointment. We understand that all members were sent weighty governance documents and the college's standing orders, but a decision was taken that they would prefer a face-to-face meeting, which was impossible at that point because we had the omicron variant outbreak. Therefore, they elected to have a face-to-face meeting in February 2022.

Craig Hoy: Hindsight is a wonderful thing, but given the seriousness of the issues that were at play in the college, would not it have been far better for the college to have made sure that the board was fully aware of its roles and responsibilities at that stage?

Stephen Boyle: You mentioned the benefit of hindsight, Mr Hoy. There were circumstances to do with a new Covid variant. Perhaps because we were, at that point, collectively unsure how long the outbreak of that variant would last, and there had already been governance issues in the college, an alternative arrangement to support the induction of new members could have been found instead of waiting for a face-to-face meeting. As we look back on the situation, we can say that that might have been a better approach to have taken rather than waiting for an unknown date for when face-to-face inductions could resume.

Craig Hoy: Did you ask or get any indication as to why inductions did not take place virtually?

Stephen Boyle: As we set out in the report, there was a preference for induction sessions to take place face to face rather than in a virtual setting.

Lucy, do you have anything further to say?

Lucy Nutley: No, not really.

The Convener: You outline in the report not just one but a number of headings under which there was a failure to comply with the code of good governance. We have gone through a few of them. The induction of new board members, which Craig Hoy just spoke about, is one example. Another example, which is quite worrying for us as the Public Audit Committee of the Scottish Parliament, is the failure to appoint internal auditors. The existing provider's contract expired on 31 July 2021 and the appointment of a new provider was not confirmed until November 2021, so there was no internal audit function at South Lanarkshire College for three months. Will you explain why that was and what impact it had?

Stephen Boyle: You are quite right, convener: we set that out as one of the important areas of non-compliance. We share the committee's views about the necessity for audit. Internal audit is a core part of the effective running of governance arrangements of public bodies, including colleges.

I will turn to Lucy Nutley in a moment to set out some of the circumstances. I will cover the implications of that.

We are not in doubt about the importance of internal audit for any organisation, and it matters at a time of handover between outgoing internal auditors and incoming appointed internal auditors. In the college, it matters—for continuity and sharing of intelligence—that the audit and risk committee can be assured of the transfer of information, and that the incoming internal auditors are aware of the circumstances as they shape their internal audit plan to support good governance and the college's internal control environment.

There is an important gap in the governance and internal control at the college. We have just had a conversation about the appointment of board members. Likewise, we would reasonably have anticipated that the time of conclusion of the internal auditors' contract would have been known and therefore prepared for, so that there was not an important gap, as we set out in the report.

Lucy Nutley will say more about why events transpired as they did.

Lucy Nutley: The response will be much the same as the one that I gave about the board members. Everything was in place; a procurement exercise had taken place and a preferred supplier had been identified, but because of the cancellations of audit and risk committee and board meetings, the appointment could not be ratified.

The Convener: In those circumstances, would it not have been expedient to roll over the contract of the existing provider until the procurement deal could have been ratified at the appropriate level in the college governance structure? There must surely have been an alternative to a gap with no internal audit facility whatsoever.

Stephen Boyle: In theory, that is possible—probably with agreement from the outgoing internal auditors that they were prepared to extend their contract. I suspect that they would have concluded their final work. As Lucy Nutley said, the procurement exercise had been undertaken. The question is, rather than accept a six-month gap without an audit committee meeting, could other arrangements have been explored—to have a virtual meeting or to co-opt other members of the board—so that that important part of the college's governance infrastructure could have been implemented? It seems that more clarity from the college is needed on that. Why wait for six months with no audit and risk committee meetings and that important part of its governance left in abeyance?

The Convener: That is helpful. I do not wish to labour the point, but for the benefit of people who are watching the meeting and people who have an interest in the good governance and working, and the success of, South Lanarkshire College, will you explain in layperson's terms what the implication is, or what the risks are, of there being no internal audit function for three months?

Stephen Boyle: I will do that, convener. Internal auditors have a plan that they discharge over the year; it covers the key risks to the college's functioning. They will want to be assured that financial management and governance are operating effectively, and they will align their programme with other aspects of delivery of the college's strategy. The fact that that did not happen increases the risks that financial transactions were not happening as intended, that governance was not delivered properly, and that aspects of the college's overall strategy were interrupted.

Internal audit also plays an important reactionary role. Internal audit exists as a deterrent against fraud and corruption in an organisation, and as a conduit through which people can raise concerns that they feel unable to raise through other means. Not having an internal audit function matters—it is a gap in the internal control environment and the effective running of an organisation.

The Convener: Thank you for that illuminating response, which was helpful and will inform our future evidence-taking sessions with the principal people from the college.

I know that Graham Simpson is anxious to come in, but before I call him, I want to ask about ownership of the governance improvement plan, which you have identified as an issue in the report, and particularly the role of the Lanarkshire board and the Scottish Funding Council. What is your understanding of the role that those bodies will play in monitoring the progress of implementation of the governance improvement plan that has been agreed?

Stephen Boyle: I will start, convener, and then bring in Lucy Nutley and probably Rebecca Seidel to say something about the role of the Lanarkshire board, which is changing in the light of recent considerations that the Scottish Government has consulted on.

The SFC is responsible for overseeing the performance of Scotland's colleges. As we have already discussed, it commissioned the initial investigation, following concerns having been raised by the Lanarkshire board and the principal with regard to grievance, conduct and so forth. The Scottish Funding Council will want to be assured that the improvement plan is complete, that it reflects its report and the reports of the independent investigations, and that good governance is maintained in the college.

Rebecca Seidel will say a bit more about the role of the regional board, given the uncertainty about its duration.

Rebecca Seidel (Audit Scotland): The regional strategic body—the Lanarkshire board—is responsible for ensuring that both colleges in the Lanarkshire region provide high-quality further and higher education. The regional arrangements were established in 2014, but in its review in 2020, the SFC found that those arrangements were not working as was originally expected and were, in fact, probably having a negative impact on the functioning of both colleges. It also found that the arrangements were not well understood or, indeed, accepted in both colleges, that they were causing some friction between them and that they were distracting from the core day-to-day delivery of their mission to provide better outcomes for students.

On the back of that review, the SFC recommended that the regional arrangements be dissolved and that both colleges manage themselves as separate entities reporting directly to the Scottish Funding Council. That recommendation was made in 2020, but legislative change is required to allow it to be implemented, as the Lanarkshire arrangements are based on the Lanarkshire Colleges Order 2014 and Scottish Government consent would therefore be required.

The Scottish Government endorsed the recommendation towards the end of 2021 in its response to the SFC's wider review of provision of tertiary education, but at that point—I think that it was October 2021—a lot of the issues that we discuss in the section 22 report were happening. As a result, there has been no further action to take the recommendation forward and a timetable for dissolution of the regional arrangements has not yet been agreed.

Stephen Boyle: I think that all this speaks to a level of uncertainty about who, other than the SFC and, which is as important, South Lanarkshire College's board, will oversee the improvement plan. However, as Rebecca Seidel has rightly highlighted, the role and duration of New College Lanarkshire as the regional board remains uncertain.

The Convener: That raises wider policy implications that are not necessarily for us to pick up but which are of interest to us as MSPs.

My final question relates to paragraph 24, which talks about "additional costs" incurred by the college in its attempts to understand the situation and to plan for improvements to the governance structure. Do you expect further additional costs to arise as a result of the improvement plan that has been agreed to?

09:45

Stephen Boyle: The brief answer is that we do not know precisely how much will be incurred in additional costs as a result of the investigations. That is part of our audit of the current financial year. We expect that the college will set out those costs in its financial reporting for 2021-22. I anticipate the scale of the costs to grow, given that the investigations remain live, but we are not able to give a precise figure, because we do not have that information at this stage. The matter remains part of our audit for the year ahead.

The Convener: That is reassuring.

I will bring in Graham Simpson, whom I am delighted to welcome to the committee this morning.

Graham Simpson (Central Scotland) (Con): Thank you very much, convener. It is good to be back at the committee. I served on the Public Audit and Post-legislative Scrutiny Committee in the previous session, but I should say that I have no relevant interests to declare—I do not think that what is declared carries over from one session to another.

It has been interesting to listen to the lines of questioning from members. I will pick up on some of what has been said, but I also have questions of my own. I have been aware of concerns about the college for some time now, and I have been approached by people at the college. Willie Coffey asked about the impact on staff. I have been an elected member—both as a councillor and as an MSP—for some time, and I have never come across a situation in which people are as scared as they are in this case. That applies to current staff and former staff. I have never seen anything like it. I will give the committee some background to that, because it has not had it yet.

Craig Hoy mentioned the meeting on 4 November last year, at which there were six new board members. Of course, that was the meeting at which the principal, Aileen McKechnie, and the interim clerk to the board, Brian Keegan, were suspended. There is a question about whether a board with six new members who had not gone through proper training should have taken such a big decision. A representative of the Scottish Funding Council was also present at that meeting. Was that appropriate?

Stephen Boyle: You are right in relation to the date of the meeting and the circumstances that you set out—the principal and the interim clerk to the board were suspended at that meeting. [*Interruption*.] I apologise. I ask Lucy Nutley to come in.

Lucy Nutley: The suspensions did not happen at the meeting on 4 November; they happened on 30 November, at a separate meeting.

Graham Simpson: So it was in November.

Lucy Nutley: It was a separate meeting, though.

Graham Simpson: Okay. I think that the same point applies, though. There were brand-new members who had not gone through proper training by then, and a representative of the Scottish Funding Council was present at that meeting, so the same question applies, whether the suspensions happened on 4 November or 30 November.

Stephen Boyle: As we set out in the timeline at appendix 1 to the report, an extraordinary board meeting took place on 30 November. Although the new board members had not been through an induction—as we have touched on, we would have expected that that would have been planned and programmed to have taken place—they were, at that point, appointed board members. If a board takes a decision that is consistent with its standing orders, and if the meeting is quorate, the decision is not ultra vires. That is how we see it, Mr Simpson. Notwithstanding the fact that the induction had not taken place, the board was competent to take that decision.

Graham Simpson: Okay.

Stephen Boyle: You asked about the attendance of the representative from the Scottish Funding Council, which has a role in overseeing the performance of Scotland’s colleges. It is not for the council to take such a decision; such matters are for the board. However, it is not unusual or unreasonable, per se, for the council to be represented at, or to observe, board meetings.

Graham Simpson: Okay. A report from the Scottish Funding Council has been mentioned, we have investigations that seem to be stuck, for some reason—they do not seem to be going anywhere—and two key members of staff have been suspended for six months. That does not seem acceptable to me.

However, there is another report, which was commissioned by the now-suspended principal, Aileen McKechnie, from a company called Azets. Are you aware of that report and do you know what it covers?

Stephen Boyle: Lucy Nutley can say a bit more about our understanding of the Azets report and the nature of the content of its review. Azets is a firm of accountants, auditors and advisers and, as you say, the review was commissioned by the currently suspended principal.

Our section 22 report on the 2021 audit notes the live status of investigations and, as I suggested earlier, it is something of an interim-style report. While we await the conclusion of other investigations, we are limited in the extent to which we are able to offer full and complete views on the circumstances at the college.

Lucy Nutley: The Azets report, as the Auditor General said, was commissioned by the principal in early 2021. The report identified a number of recommendations for improvements in processes and controls around policies and procedures, for example, which we considered as part of our external audit. However, as we have said, it is not within the scope of the section 22 report.

Graham Simpson: I understand that, but the very commissioning of that report makes me feel that the committee needs a little bit of background to all this that it has not had.

I have the minutes from the 8 June 2021 board of management meeting. Under a section entitled, "Internal Audit Update", it says:

> "The Chair updated members ... on a number of allegations of potential staff misconduct within one of the college faculties. The allegations related to 3 separate matters:
>
> Systematic bullying and intimidation of a number of staff over a prolonged period
>
> Potential financial irregularities (of private businesses operating from college premises, using college materials and lecturing staff time)
>
> Potential timetabling anomalies (fabrication of hours, of students, of classes)."

This has been reported in the press previously—I am not saying anything new. However, we have here, in black and white, in the board of management minutes, an allegation of private businesses operating from college premises.

Earlier, Auditor General, you said that millions of pounds of public money were not being overseen. That point is extremely relevant here. Were you aware of any of those allegations?

Stephen Boyle: I was aware of the generality of the concerns, yes. I had not read those specific board minutes. I note some of the phrases in respect of allegations about behaviours, potential irregularities and fabrications, and there is no doubt that those are all very serious matters. I think that they speak to some of the earlier conversations that the committee has had this morning. In such circumstances, the issues around effective internal control environment governance, and the absence of an internal audit function, are all very serious.

In discharging their oversight of public funds, public bodies need to have effective control environment governance arrangements in place and I am sure that the board will want to be satisfied that all those allegations are properly investigated.

Of course, in the event that it is deemed that those very serious allegations have resulted in not just improper conduct but, potentially, financial irregularities, there is an obligation to report such concerns to Police Scotland.

Graham Simpson: My view is that this could be a police matter. Do you have a role, if people want to come to you in confidence with information?

Stephen Boyle: I do, Mr Simpson. Under the Public Interest Disclosure Act 1998, Audit Scotland is a prescribed organisation and we welcome any members of the public with relevant information, any members of staff of public bodies, and indeed board members, raising concerns with Audit Scotland if they wish to do so. We are clear on our website about how they can do that, and we would actively encourage them to do so.

Graham Simpson: Convener, I have no further questions but I invite the committee to take these allegations extremely seriously. They relate to your brief and I think that you should be delving deeper into what has been going on at the college.

The Convener: Thanks, Mr Simpson. I appreciate that pointer.

I thank all the members who have participated in this evidence session. I also thank the witnesses—the Auditor General, Rebecca Seidel and Lucy Nutley. Thank you very much for your co-operation and openness about the section 22 audit report that you have been required to produce. We will consider our next steps in relation to pursuing our interest in what, by all accounts—including appendix 1 of the report—looks very much like a public institution that has been in crisis.

I now suspend the meeting to allow a changeover of witnesses to take place.

09:57

Meeting suspended.

10:00

On resuming—

"Administration of Scottish income tax 2020/21"

The Convener: Agenda item 3 is on the administration of Scottish income tax. We took evidence on 3 February on the reports that we had received from Audit Scotland and the National Audit Office. We want to explore further some of the implications of the reports, and we have a series of questions on them.

I welcome our witnesses. Alyson Stafford is director general of the Scottish exchequer, Fiona Thom is head of the income tax and reserved taxes unit at the Scottish Government, Jonathan Athow is director general for customer strategy and tax design at Her Majesty's Revenue and Customs, and Jackie McGeehan is deputy director for income tax policy at HMRC. You are all very welcome.

I invite Alyson Stafford to make a short opening statement. We will then proceed to ask a series of questions.

Alyson Stafford (Scottish Government): Thank you, convener, and good morning to the committee. Scotland has clearly been in the vanguard in implementing a rapid devolution of fiscal powers, and the onset of powers in Scotland to vary tax rates and bands for non-savings, non-dividend income tax from 2017-18 has relied on the administration of this partially devolved tax by HMRC.

The areas of assurance for the Scottish Government come from three sources. First, HMRC has a designated and additional accounting officer who is responsible for Scottish income tax. Secondly, the Scottish Government and HMRC have a service level agreement with a performance framework that is vigilantly monitored and adapted as our mutual experience grows. Thirdly, the National Audit Office provides an audit opinion, which has confirmed, among other assurances, that the Scottish income tax outturn for 2019-20 has been fairly stated by HMRC.

I also take comfort from the Auditor General for Scotland being satisfied that the findings and conclusions in the NAO Comptroller and Auditor General's report are reasonably based. That also provides the Scottish Parliament with valuable assurance with regard to this important aspect of the Scottish budget.

That said, we continue to work with HMRC and Revenue Scotland to ensure that the Scottish public finances are underpinned by tax administration arrangements that function effectively and as intended, ensuring value for money for the taxpayer.

My colleague Fiona Thom from the Scottish Government's tax directorate and I look forward to answering the committee's questions.

The Convener: Thank you for setting out that introductory framework. I am sure that you will have read the evidence that the committee took on 3 February. We were particularly exercised by the fact that we are in years 4 and 5 of a distinctive Scottish income tax system but there appear to be what, in our eyes, look like significant gaps in the data that is available and in the evidence that we think is necessary to allow Parliament and the Government to make informed decisions and choices about income tax policy in Scotland.

We are particularly interested in the level of compliance activity that is Scotland specific, in whether there is sufficient—or any—data on the tax gap in Scotland, and in the extent to which the information can be interrogated and analysed, which we think is extremely important in fashioning the evidence upon which we can build a sustainable and effective tax system.

You mentioned service level agreements, which we will return to. We are very pleased that the Scottish exchequer and HMRC are here as parties to that agreement, because we will want to explore that in our questions.

I call the deputy convener, Sharon Dowey, to open the questioning.

Sharon Dowey: Good morning, everybody. In evidence to the committee, the Comptroller and Auditor General concluded that HMRC's outturn figures and administration of the system were reasonable, and that the administration of Scottish income tax had

"now reached what is essentially the implementation of business as usual."

He also said:

"HMRC's focus must now be on refining its processes to maintain an accurate and complete record of the Scottish taxpayer population and on continuing to monitor the risk of non-compliance that might or might not arise as a result of divergence between UK and Scottish tax rates."—[*Official Report*, *Public Audit Committee*, 3 February 2022; c 3.]

What areas of refinement are still required

"to maintain an accurate and complete record of the Scottish taxpayer population"?

Jackie McGeehan (Her Majesty's Revenue and Customs): Scottish taxpayer identification is absolutely at the core of our administration of Scottish income tax. However, that is an on-going process; we cannot do it once and then leave. After all, the population is clearly not static. Every year, we carry out a postcode check, while every two years, we check the address data that we hold in our systems against third-party data—electoral rolls, credit agency and post office data and so on—and match individuals with it. We are able to match 70 per cent of those individuals in that exercise. When we look at those matched individuals, we find that, in 99.9 per cent of cases, the address is the same. In a small number of cases, however, the address is different and, for some, it falls on one side of the border or the other, and we then need to check which side of the border—Scotland or England—the individual is living on. We write to them and ask them to update their address records or tell us if their addresses are wrong.

With the remaining 30 per cent for whom we do not get a match, we look for the addresses in the pay-as-you-earn records in our real-time information system or in our self-assessment records. In those cases, we are able to corroborate them. In total, we have corroboration for 98 to 99 per cent of Scottish taxpayers.

With the remaining 1 per cent, the information is not necessarily incorrect—we have just not been able to corroborate things. We have a very good level of accuracy, which we maintain by communicating with taxpayers and encouraging them to tell us when they change their address so that we can keep that information up to date. We also get addresses from other sources, but we maintain that approach of constantly repeating our communication with taxpayers and checking our databases to ensure that the addresses are in the correct format.

Sharon Dowey: Do the errors appear to be intentional or unintentional?

Jackie McGeehan: We see no evidence of intentional errors. Most people tell us when they move house, so we get their address then. We sometimes get incorrect postcodes or addresses in a format that does not quite work with the system, and we have a process for checking and correcting postcodes. For people who are in employment or receive a pension, we correct the incorrect postcodes and ensure that they are recorded accurately as Scottish taxpayers so that no revenue is lost to the Scottish Government.

Sharon Dowey: Thank you.

Craig Hoy: My first question relates to the comment in the NAO report that

“HMRC has limited performance data available about its compliance activities in Scotland.”

Why is that the case, and what, if anything, is being done to try to rectify the situation?

Jonathan Athow (Her Majesty’s Revenue and Customs): There are two key factors, the first of which is that, as Jackie McGeehan has said, we do not think that there is a particular issue with people not complying or trying to misrepresent their address. That reflects partly the work that we are doing and partly the fact that there is not a large differential between the rates of income tax.

Secondly, we try to take a holistic approach to non-compliance. We consider how we can minimise non-compliance across the United Kingdom as a whole and across all the taxes that we administer. Obviously, income tax is one of the largest revenue raisers, so it requires due care, but we look across all taxes.

Our approach involves looking at how we can maximise compliance activity for the UK as a whole. That compliance activity is not just about chasing money, although we obviously want to collect all the money that is due under the law. We also have anti-money laundering responsibilities, and we sometimes tackle fraud cases that involve organised crime. Our compliance activity has a number of objectives; some are about collecting money and some are about tackling wider illegal activity.

From that point of view, we try to achieve the best return—not necessarily a financial return, but the best public policy return—across the UK as a whole. That is how we tend to operate, which means that our systems are set up to record that. Although there will be different geographic patterns between Scotland and the rest of the UK, or at more granular levels than that, our systems are not set up in that way, because we try to optimise our activities.

Craig Hoy: You say that the variation is not particularly significant, so you would not have concerns, but someone in Scotland who earns £50,000 will pay £1,489.10 more in tax than someone in the rest of the UK who earns £50,000. Given that there is always compliance, evasion and avoidance, at what level of variance would you start to have significant concerns and think that you would need to probe deeper into the data?

Jonathan Athow: It is very hard to give an exact figure, because it would depend on what patterns we were seeing in the compliance work that Jackie McGeehan talked about. It would depend on whether we were seeing more people with problems with their residence and whether we could identify that as deliberate action, such as deliberately misstating or not updating information, or other negligent behaviours. We would look at those sorts of behaviours, as well as the difference in rates.

Our approach to compliance is different for different taxpayer groups. We have a dedicated team of people who look at high-net-worth individuals, and those in Scotland will be managed differently. High-net-worth individuals might be a group who you think are most at risk of trying to arrange their affairs in a way that minimises their tax, so we have a unit that looks at those individuals, and their residence will be part of that work.

It is a question of taking a tailored approach, not just geographically, but also in relation to the different types of taxpayer that we have and the different opportunities that different taxpayers will have to arrange their affairs, whether legally or less so. That is the approach that we take.

Craig Hoy: The Scottish Government has taken the decision to raise tax on middle-income earners upwards. You identified high-net-worth individuals or millionaires. Let us take the example of a millionaire with a house in North Berwick and a house in Berwick-upon-Tweed who works in London and Edinburgh. That is a conceivable case. Is that now a grey area that concerns you?

Jonathan Athow: No. We have clear rules on residence. Of course, there have been long-standing issues around residence internationally, as well as within the UK. Jackie McGeehan, do you want to comment on the clarity of the residence rules?

10:15

Jackie McGeehan: We think that the residence rules are clear in legislation. For most people, where they live is absolutely clear cut, because they have one residence that is in Scotland, England, Wales or Northern Ireland. For those who have two residences, the question is about where their main residence is and where they spend most of their time—basically, where their life is. If someone spends most of their time in Scotland, they are a Scottish taxpayer.

Where someone has multiple residences and it is not clear where their main residence is, it becomes a day-counting issue to find out how much time they spend in each of those residences, before we reach closure. However, that is fact based. People cannot choose and say, “I fancy being a Scottish taxpayer,” or “I fancy being an English taxpayer.” That is based on where they actually live and spend their life.

Craig Hoy: If I fly in and out of the country from Buenos Aires, you can probably monitor that and count the days much more easily than if I go between North Berwick and Berwick-upon-Tweed. How do you monitor that? Do you just take what people say at face value and take their word for it?

Jackie McGeehan: In most cases, we do not think that there is an issue but, if we carry out an inquiry, we would seek evidence about where the person is living. For example, that would be about where their children go to school or where they are a member of a golf club. We would not often get into that level of inquiry, but there is evidence that we can look at to decide where somebody actually lives.

Craig Hoy: Thank you.

The Convener: In our previous session on the issue, Colin Beattie went into some detail on one aspect of the report, and he is keen to get back into that level of detail on that aspect, so I invite him to put some questions.

Colin Beattie: I have a couple of specific questions. After the previous meeting, I looked at the National Audit Office report and extracted from it just an A4 page—it could have been more, but I kept to the main points—setting out the references to estimates, information not being available, projections and all sorts of other things. If we take each issue individually, perhaps they are explainable but, if we take them in aggregate, surely the impact on Scottish income tax is significant.

I do not know whether you have done a crude exercise such as the one that I have done, but it seems to me that, taking the issues in the round, there must be concerns about the accuracy of the income tax take, which obviously has huge implications for the Scottish Government and for HMRC. In a general sense, how are you going to deal with all those issues? Are we going to get away from all the estimates and the fact that we cannot identify individual figures and so forth? Maybe that is for Jackie McGeehan.

Jonathan Athow: I will come in on that. We are talking about a number of different figures, and I would put them into three groups. First, we think that, of the amount of income tax that is Scottish income tax, 97 per cent is identified through the PAYE system or self-assessment, so it is actual liabilities that have been established. That involves just adding up what residents in Scotland pay through PAYE or self-assessment. In that regard, all that we are doing is adding things up from the forms—we are not making any estimates.

That is one element. There is an amount that we have to adjust, because we know that some people with self-assessment returns will be late filers, so we will not have the information. The 3 per cent is estimated, but 97 per cent is based on established liabilities, so we have a high degree of confidence on that. Although there are estimates, they do not affect the 97 per cent.

Colin Beattie: There are an awful lot of estimates.

Jonathan Athow: There are. There are two other elements where the estimates are needed. One is in relation to the forecasts. The Office for

Budget Responsibility and the Scottish Fiscal Commission make forecasts. Some of that forecast data relies on some of the assumptions that you have in front of you. That does not affect the outturn—the money that is actually achieved—but it is important for setting budgets and overall public spending plans at a UK level and in Scotland. Therefore, those estimates affect the forecasts. There is also the block grant adjustment, which some of those assumptions will affect. However, going back to the outturn data, 97 per cent is based on established liabilities.

Having worked in related areas for a long time, I know that we need to make lots of assumptions. Particularly with issues of tax—we will probably get on to this later—there is always a need to understand what non-compliance is. It is very difficult to tackle that and it is necessary to make assumptions. I come back to the fact that 97 per cent of the outturn tax collected is based on established liabilities. The 3 per cent requires estimation, but 97 per cent is pretty clearly established.

Alyson Stafford: I emphasise the difference between the National Audit Office opinion on the actual tax recorded for 2019-20 and the provisional figures that have been audited for 2021. As Jonathan Athow said, the 2019-20 figure is the one that we have to rely on as the tax actually collected and due to Scotland. That is a really important figure for us in Scotland. It is the one that we use to assess the performance of the forecasts that we used in setting the budget, which come from the Scottish Fiscal Commission.

The difference between the Scottish Fiscal Commission's forecast and the block grant adjustments that are associated with it was £34 million. That adjustment had to be made in our current year—the 2022-23 budget. We rely on those elements of estimation to arrive at the figure of £11,833 million. Reading the detail of the National Audit Office's opinion and the assurance that it can give the Government on that is essential.

I do not wish to diminish the work that the National Audit Office has done on the provisional figure for the 2020-21 year, but we do not use that. We rely on the forecasts that the Scottish Fiscal Commission generates to set our budget and expenditure plans and to determine the flow of cash from the Treasury in that year.

The estimate on which I am most vigilant in order to get from the National Audit Office's opinion as robust a position as possible on HMRC's work is the 3 per cent that Jonathan Athow mentioned. The impact of the net adjustments was £150 million, which would be a net estimation of -1.3 per cent.

It is important to make the distinction about which numbers we actually use in Scotland. The number that the National Audit Office is considering for 2020-21 is for the purposes of the HMRC account. We have to wait until the full outturn, when all the self-assessments come in, to get the final figure for 2020-21.

I wanted to clarify the situation and say where the emphasis of assurance is needed for us in Scotland. We use the outturn figure and we rely on the Scottish Fiscal Commission for all the provisional work.

Colin Beattie: There is a fairly long list of estimates and workarounds in the NAO report. Do most of those exist for income tax in the rest of the UK or are they specific to Scotland, because of the way in which the settlement has been done?

Jonathan Athow: A large number of estimates are also used at UK level. As we have already explored in relation to compliance data, it is more challenging to produce Scotland-specific figures for some estimates because of how the data is collected and because of historical decisions about the set-up of information technology systems. We do not always have a split with Scotland, Wales, Northern Ireland or regions of England. We often do not have data at lower levels of geography that would allow us to break down some of the assumptions. Assumptions are used at UK level, and we sometimes apply a UK assumption to Scotland.

Colin Beattie: Given that there is devolution across the different nations, you would expect that some effective work would be taking place so that individual figures could be given for individual nations.

Jonathan Athow: As I said, we can be very specific about certain estimates and figures. I go back to what I said in relation to the 97 per cent figure. The challenge is whether we have the data available for some of the other estimates. I know that a wider conversation is taking place between the Scottish Government and the Scottish Parliament about what other economic data should be available for Scotland. Economic data is often needed to work out the share of an activity that arises in Scotland. There is a wider programme of work to provide more data, but we are sometimes constrained by decisions that were made well before many of the current devolution arrangements were ever considered. That limits our ability to provide more granular estimates.

Colin Beattie: I remain of the opinion that the aggregate totals for all the estimates, workarounds and so on must be significant, which is a concern.

I will move on to the specific issue of missing Scottish postcodes, which you have touched on. My concern is that the number had increased from

13,708 to 23,351 when the NAO last reported. That is a 70 per cent increase, although the point has been made that the figure represents something like 1 per cent of the population. However, the concern is that those missing taxpayers can equate to a fairly large sum of money in tax, especially if they turn out to be individuals with a high net worth.

I have three questions. What is behind the increase in the number of missing Scottish postcodes? What is the impact on revenues likely to be? What is HMRC doing to fix the issue?

Jonathan Athow: I will start, and then I will hand over to Jackie McGeehan. We want to monitor the issue of missing postcodes, which is an important indicator for us. As I said in my earlier answers, we want to make certain that we understand what is happening with that number and what the longer-term trends are. Although four or five years might feel like quite a long time, we need a bit of a track record when operating tax systems in order to understand how data changes over time.

As Jackie McGeehan said, if we cannot match a postcode, or if we have problems with postcodes, we have a process for working through that. Sometimes, we are able to identify that the taxpayer no longer has any liabilities. We might no longer have any record or postcode for someone because they have left work, which might mean that they no longer have a tax liability. There will be reasons for that, and what we will do is work through all those postcodes and identify where we think that a missing postcode should be in Scotland. So far, we do not see any widespread problems here. We will want to monitor how that number changes over time, as it is an important indicator.

10:30

To go back to your point, there are 2.5 million income tax payers in Scotland, so we should remember that, when we talk about a figure of 25,000, although that seems quite large, it represents 0.1 per cent of taxpayers, which means that the numbers that we are talking about remain small. We do not think that there is any disproportionate effect on the income tax that is raised in Scotland.

Jackie McGeehan: The address data that we get comes from a number of sources. Individual taxpayers tell us their address, employers can give us the address of employees who join them and we get data from other Government departments. As you might imagine, as is the case with many other organisations, the data that we get is not always perfect, and we need to do quite a lot of work to cleanse it and make sure that it is right. We check those postcodes annually and we correct all the postcodes for people who are in employment or in receipt of a pension and are taxpayers. We correct all of those in year, so there is no loss to the Scottish Government in terms of the revenue.

As Jonathan Athow says, we will monitor the situation, but the data comes from other sources and we put it right to the extent that we need to in order to get the right number in terms of tax for Scotland. However, it is important to remember that we are talking about a tiny proportion of the tax that is due to Scotland.

Colin Beattie: Jonathan Athow, you said that the figure that you gave represented 0.1 per cent of taxpayers. Is it not 1 per cent?

Jonathan Athow: Yes—sorry, that was my fault. It is 1 per cent.

Colin Beattie: I just wanted to be sure that we are on the same page.

You have not said what is behind the increase.

Jonathan Athow: At the moment, we do not have a good indication of what is behind the increase. We need to understand what is going on. Some of the issues might arise because of changes in the economy or they might be to do with people moving between the different categories that Jackie McGeehan talked about, which might be creating more noise in the system. At the moment, we do not have a good indication of that. Is it to do with economic change or is something else going on? We will continue to monitor the situation, because we think that it is a valuable piece of information that might give us an early indication of other concerns that we ought to have about the way in which the system is operating.

Colin Beattie: You did not indicate the scale of any impact on revenue.

Jonathan Athow: As Jackie McGeehan said, we will work through that. We do not think that there is any meaningful impact on revenues. What we are dealing with is the starting position in relation to those taxpayers, and we will do all the work to ensure that we have a proper postcode for those cases in which there is a problem. We think that, by the end of it, there will be no residual problem. We are confident that we are able to tackle the issue but, obviously, we want to keep an eye on the situation to ensure that it remains a small problem.

Colin Beattie: Westminster's Public Accounts Committee has reported on HMRC's management of tax debt, particularly in relation to the Covid period. The committee came up with a number of conclusions that it set out in six bullet points, some of which are quite strongly worded. It says:

> "We are not satisfied that HMRC has a clear plan to tackle the mountain of tax debt which has built up during the pandemic ... HMRC is not being ambitious enough in bringing down debt levels and securing the resources this will require ... Rogue companies are exploiting the pandemic to profit at the expense of taxpayers."

Scotland will not be exempt from that last issue, I am sure. The report continues:

> "HMRC is far behind where it needs to be in making good use of data to manage debt effectively ... HMRC is not using all relevant data sources to understand how the pandemic is affecting taxpayer's ability to repay."

Finally, it says:

> "We are concerned that HMRC is not doing enough to identify vulnerable people who need extra support with their debts."

Has HMRC accepted those conclusions?

Jonathan Athow: I do not think that we would express the issue in quite the same way. During the pandemic—

Colin Beattie: I am sorry—what does that mean?

Jonathan Athow: Elements of the report bring out some challenges that we face, but I would not characterise the situation by saying that we do not have plans or approaches, although our plans and approaches may need to change.

Colin Beattie: Therefore, HMRC has not accepted the findings of the committee report.

Jonathan Athow: I would not say that. Let me go back to what I said before—

Colin Beattie: Is it not a yes or no answer?

Jonathan Athow: As I said, elements of the report are absolutely true, but I do not think that the way that it is characterised is correct. We will probably partially accept elements of the report, because there is a great deal of important work to be done there.

To go back to the overall issues, during the pandemic, we deliberately chose to make changes in the way that we collected debt, because we recognised that businesses and individuals would be in financial distress. That caused a very large rise in debt—our outstanding debt balance rose to £70 billion. We have brought down that balance and, at the end of the previous financial year, there was £40 billion of outstanding debt. However, there is further to go, and the report says that we now need to work through how we continue to get the debt to fall. We have already made substantial inroads into that stock of debt, but there is further to go.

In that respect, the Public Accounts Committee is absolutely right that there is more to be done to reduce debt back towards the pre-pandemic level—I am completely with the committee on that. However, I think that the way that the committee's recommendations are expressed implies that we have not done anything or that we do not have clear plans. We are working through those plans, and whether those plans will need to change is another question. This has been an unprecedented time for us, and we need to work out what we need to do differently now.

Colin Beattie: Has HMRC responded to the committee report?

Jonathan Athow: To the best of my knowledge, we have not responded yet.

Colin Beattie: You have a huge task because, before the pandemic, you managed about 3.8 million taxpayers in debt and, as of September 2021, that number was 6.2 million. That is a huge hill to climb.

Jonathan Athow: Indeed. As I said, the overall stock of debt reached a peak of £70 billion during the pandemic. We have brought that down to around £40 billion, but that is still above the pre-pandemic levels, and the figure that you mentioned is not entirely consistent with those levels, so there is still further to go.

The challenge is to make certain that we strike the right balance. Some individuals or businesses will still be in financial difficulty, and we wish to support those taxpayers who cannot pay. However, it is also important that we collect money from taxpayers who can pay because, as you all know, that money is important for the UK and Scottish Governments to fund public services.

Colin Beattie: Do we have any specific figures on that for Scotland?

Jonathan Athow: I do not know but, if we have anything on Scotland, I can update you.

Colin Beattie: I think that this committee would be interested if there are specific figures about taxpayers in debt in Scotland.

Jonathan Athow: I will take that away and write to the committee about that.

The Convener: Could you tell us when you will officially respond to that Public Accounts Committee report?

Jonathan Athow: As I understand it, there is a three-month grace period for that, so we would normally respond within that time. I cannot comment any more than that. It is not fully my area of responsibility, so I am not fully sighted on all the ins and outs of that report.

The Convener: Okay. Obviously, we will await that response with interest.

I want to go back to something that Alyson Stafford said. As I understand the process, amendments to the Scotland Act 1998 provided for the setting of a Scottish rate of income tax from April 2017 onwards. HMRC collects and administers Scottish income tax, HMRC's accounts are audited by the National Audit Office, and the Comptroller and Auditor General is required to report to the Scottish Parliament on HMRC's administration of Scottish income tax. His seventh report on Scottish income tax was laid in Parliament on 14 January 2022. However, you told us earlier that you do not take any account of the NAO's estimates of Scottish income tax. Why do you ignore that important body of evidence and rely solely on the Scottish Fiscal Commission's estimates?

Alyson Stafford: The fiscal framework, which is the arrangement that has been agreed between the Scottish and UK Governments, determines how we set our budgets in the first place, and how those budgets are adjusted when we have the outturn data. Those arrangements require us—this is in legislation—to use the forecasts as generated by the Scottish Fiscal Commission when taking into account the level of income tax that we bring into our budget each year.

That is the arrangement that is in place, and we are absolutely complying with that. The Scottish Fiscal Commission sets out and publishes how it generates the forecast for the partially devolved taxes such as income tax, but also for taxes that are fully devolved—those that are collected and administered by Revenue Scotland—and the non-domestic rates income, which is in effect a tax that is administered by local government.

We use what we are required to use under the fiscal framework and the legislation in Scotland. Obviously, the Scottish Fiscal Commission has access to the real-time information that is now available and it draws on different data sources—it publishes the basis on which it works through its forecasts. As I say, however, the strict requirements for what we need to use are set out in the fiscal framework and we use the Scottish Fiscal Commission's forecasts as set out in Scottish legislation.

The Convener: I understand that you are compliant with the requirements that are placed on you by legislation but, as the director general of the Scottish exchequer, would it not make sense for you to at least take into account the National Audit Office's estimates of future tax take?

Alyson Stafford: What makes sense for me is to use what comes from the Scottish Fiscal Commission.

The Convener: Does it use the NAO's estimate as part of its deliberations?

Alyson Stafford: It uses a range of data sources, and they are published.

The Convener: Does that include the NAO's estimate?

Alyson Stafford: It uses a range of things from different sources, although not necessarily the NAO. Some of it will be from HMRC, and the commission will use other sources. Those are the figures that we use. We are required to use those in operating the fiscal framework in Scotland as part of the whole package of fiscal devolution.

The Convener: Okay. Maybe as DG for the Scottish exchequer, you could write to let the committee know what are the sources that are used.

Alyson Stafford: Do you mean by the Scottish Fiscal Commission?

The Convener: Yes.

Alyson Stafford: By all means, we will provide the link for all the different data sources. That information is published, but we are happy to do that.

The Convener: Thank you, but we are still not clear about whether the NAO is included.

Fiona Thom (Scottish Government): I might be able to clarify that. As far as I am aware, the Scottish Fiscal Commission does not use the HMRC provisional estimate as part of its current forecasting data sources. Obviously, if you want more information about why that is the case, you would have to speak to the Scottish Fiscal Commission but, as far as we are aware, the commission does not use that estimate in its current forecasting of Scottish income tax.

That figure is, however, an additional Scotland-specific number that we can compare against what we get from the Scottish Fiscal Commission and, if those figures were completely different, we would be aware of that and would discuss it with the Scottish Fiscal Commission. However, to answer your initial question, we do not think that it uses the NAO estimate, but we can send a list of data sources.

The Convener: I am not trying to trip anybody up, but are you saying that you do not think that the Scottish Fiscal Commission uses that estimate, but you use it as a reference point?

Fiona Thom: No. Alyson Stafford has stated clearly that we do not use it, because we use the Scottish Fiscal Commission's forecast for our budget. However, it is an additional piece of data and it is not the case that we never look at it. It is part of our overarching understanding of Scottish income tax, but it is not used when we set our budget, because that is done using SFC figures and the actual outturn data.

10:45

The Convener: Okay. We might return to that before we finish.

My next question is for Jonathan Athow. The Audit Scotland report that accompanies the NAO report made a point about good governance and assurance arrangements and the need to keep those under continual review. It said that the process should include

"ongoing consideration of the frequency of third-party data checks and Service Level Agreement performance measures, such as setting compliance target levels for Scottish taxpayers without 'S' prefixes."

Why has HMRC still not introduced a target in relation to the number of missing S prefixes? Will it do so at some point in the future?

Jonathan Athow: I ask Jackie McGeehan to explain briefly how S prefixes work, after which I can talk about what we will do in that regard.

Jackie McGeehan: When we identify a taxpayer as Scottish, we send their employer their tax code. Every year, we send out tax codes to the employers of all pay-as-you-earn taxpayers. We usually do that in advance of the start of the tax year. That is the code that they should apply to that individual. In cases in which they are Scottish, the code has an S prefix.

Those taxpayers are correctly identified by us as Scottish. In a small number of cases, the employer—for whatever reason—does not apply the code correctly. In other words, they do not treat the individual as a Scottish taxpayer. They do not change the code; they apply a different code. We identify those cases and take action. We write to the employer and say, "You haven't applied the correct code. You need to apply it—here it is. Please do it." In cases in which employers fail persistently, we contact them to find out why. Sometimes, they have problems with the software; sometimes, they simply take a long time to update the codes. We have a programme of educating those employers and supporting them to get it right.

When that happens, such taxpayers are still correctly identified as Scottish on our systems. At the end of every tax year, we do a reconciliation of our pay-as-you-earn scheme system, whereby we look at what the employers have deducted and at what we would expect them to have deducted, based on our codes and what we think they should be paying. If there is a difference—if someone has overpaid or underpaid—we will correct that.

Therefore, the Scottish Government is getting the tax that it should get. Ultimately, the individual pays the right amount of tax. Unfortunately, when an employer gets it wrong, with the result that the individual has the wrong amount of tax deducted during the year, they may find that they have a bit more to pay. Those are employer errors. We take steps to reduce that number of errors as far as we can. I think that around 4 per cent were incorrect when we first started issuing S codes, and the figure is now down to around 1 per cent. The number is coming down, and we will push to make sure that it stays down and goes down further.

Jonathan Athow: The main thing to draw from that is that, in the end, the right amount of tax is collected. There is an inconvenience here. Therefore, when it comes to the operation of S codes, it is not really a question of money not being collected; the problem is with the good governance and good operation of the PAYE system. There is a wider small problem that we have, which involves some PAYE systems not being operated correctly. We work with employers to make certain that they are collecting the right amount of tax. However, that is a very small issue.

As far as the S codes issue is concerned, we do not think that that is a particular risk to the collection of the right amount of tax. When it comes to data sharing more generally and how the service level agreement will work, we already do quite a lot of data matching. The challenge is to make certain that we respond as events develop. I have already talked about the number of postcodes that are not correctly identified. As the process becomes more mature and new issues arise, we will have to respond. I think that we have the tools to do that, whether we are talking about postcodes, S codes or anything else.

At the moment, we are confident about the system, but we cannot be complacent; issues might arise as the system develops, perhaps as there is greater divergence in tax rates.

The Convener: Okay—thank you. I am conscious of the time.

We have mentioned in passing the impact of the pandemic. Willie Coffey has a series of questions to ask on that.

Willie Coffey: The conversation earlier was fascinating. What I drew from it is that we can have any number of forecasts, but it is the outturn that matters. Alyson Stafford led the discussion about the arrangement being firmly embedded in the fiscal framework. I am sure that some people are asking about revisiting that if there is any scope to do so. Who knows? That might evolve in the future.

I want to ask a couple of questions about the impact of the pandemic on tax receipts. I also have a little question about the compliance issue that is mentioned in the report.

In a meeting earlier in the year, we heard that the forecasts for income tax receipts had increased significantly. Will you tell us a little about your estimation of the impact of Covid on your forecasts? Have those forecasts changed as the result of the impact of Covid? That is probably a question for Jonathan Athow and Alyson Stafford.

Jonathan Athow: I will talk about the high-level impact. There have been a number of effects, one of which has been an impact on operations. I have already talked about debt. We are talking about large numbers in that regard, but things are a bit uncertain. There have been impacts on the amount of cash that is coming into the Exchequer.

On underlying liabilities, one thing that we have seen is that the impact of Covid on receipts has perhaps been less pronounced than in many of the earlier forecasts. That is because of the overall labour market position, and particularly that on income tax. Employment is a key driver of that, and that has held up better than people expected. The levels of employment have not got back to pre-pandemic levels, but they have recovered quite quickly. We have also seen wage growth holding up quite well. Obviously, for tax receipts, the number of people in work and the wages that are paid—and growth in both of those—are important.

The situation has perhaps been more encouraging than we might have thought that it would be. Obviously, self-assessment money is paid with a long lag, but the self-assessment receipts that came in in January and February this year, which covered a pandemic year, were higher than forecast. That suggests that the impact of the pandemic for self-employed people was not as large as was first thought.

As I have said, there are still question marks. We do not know how many companies or individuals are still struggling with a legacy of debt or other such issues. There are still a number of uncertainties, and a long tail of companies might struggle as the economy develops. In addition, there is a whole set of new challenges with rising energy prices and supply chain disruptions in China and from the war in Ukraine.

There are lots of uncertainties but, in general, receipts have held up better than most people expected them to.

Willie Coffey: What is Alyson Stafford's view on that? Do you mirror those estimates? Are you similarly confident that there is a possibility of a better outturn than was first anticipated?

Alyson Stafford: I will take that in two parts. In relation to 2019-20, we have the NAO's assurance on actual outturn, but those figures were predominantly pre-pandemic. Therefore, we have not really seen any pandemic impact on the figures for that year.

On what that means for our budget, as we have discussed, the Scottish Fiscal Commission sets out a forecast position. That is the figure that we used in our 2020-21 budget. The outturn on that will be published by HMRC this summer, so we will see that figure then.

What data do we have in the meantime? I recognise a number of things that Jonathan Athow is explaining from our economic analysis. I would also point out that, in the real-time information that we were getting from HMRC, which comes from the PAYE system, we did not see any particular shock in that flow at that time. There is a lag in getting that data, and there are still things in it that must be refined and cleaned, but that at least provides some source of data in those particular years.

I await with interest the actual final outturn for 2020-21, and any reconciliations that are needed will be applied in the budget for 2023-24. There is an interesting gap between seeing how the economy performs and then seeing how that performance filters through into our public finances.

Willie Coffey: Is it too early to say anything about the possible impact of the various support schemes on your forecasts?

Jonathan Athow: At the moment, we are not seeing any particular effects. We did not see any pronounced effects from the ending of the coronavirus job retention scheme—the furlough scheme—last autumn such as, say, people falling out of the workforce. I am certain that there were some unfortunate people who lost their jobs as those schemes wound down, but there were no effects large enough to affect our forecast. Please do not interpret that as me saying that Covid had no effect—there has been a dramatic effect in receipts, However, the extent of that is perhaps less than people first thought that it would be.

Alyson Stafford: I just want to add that we usually publish the medium-term financial strategy at the end of May—it is one of the points in our fiscal calendar—and there will be more information on tax revenues and relative earnings growth over the past few years. Some of the analysis that we have will be available to Parliament then.

Willie Coffey: Finally, according to our papers, you have opened 29 per cent fewer civil compliance cases, which is much fewer than before. Can you say a bit more about the possible impact of that on tax revenues?

Jonathan Athow: Again, the pandemic meant that we as an organisation had to radically change how we worked. We had to implement a number of Government support schemes from scratch in a matter of weeks, which meant that we had to redeploy resources and divert some of our activity away from compliance matters. That was a conscious decision at the time.

The question that we are grappling with and to which I do not think that we have the full answer yet is the extent to which those things have been deferred and will be caught up with, and the extent to which the bus has gone and we have been left at the bus stop as far as those cases are concerned. We are continuing to work through that.

We have plans to increase our activity to normal levels as we come out of the pandemic, but it is still unclear whether there has been any permanent effect on the amount of compliance revenue that we can collect. As I have said, we are trying to work through that, but the pandemic more generally has left us with many unknowns with regard to what will happen in the coming years. Debt is another example of where we are starting to work through all the implications but have not done so fully yet.

Willie Coffey: Have you been able to put any estimate on that at all?

Jonathan Athow: Broadly, we think that we can make back much of that. After all, you start a compliance investigation because you have evidence of something wrong. Those cases can still be worked.

It might be a challenge if a taxpayer has disappeared or has become insolvent, because those cases cannot be fully worked through. In general, though, we are confident that we should be able to make back a large part of that dip in compliance activity in future. Again, there are uncertainties around that.

Willie Coffey: But you do not have a figure.

Jonathan Athow: I would have to write to you on that, but even now any figures will be estimates of what we intend to do in future rather than firm numbers for the money that we have brought in.

Willie Coffey: I would be obliged if you could submit that to the committee.

11:00

The Convener: I will pick up on that contemporaneous point before I come to my final question. Around the time of the UK spring budget statement, the Office for Budget Responsibility produced an assessment in which it suggested that there might be some buoyancy—a euphemism for an increase—in tax receipts, as a result of the rise in inflation. I presume that that assessment was based on wage and salary demands and rises perhaps going up at a higher rate than they have been for the past decade as a result of the fuelling impact of price inflation. My question is first to Jonathan Athow. Are you seeing any impacts from that rising inflation in your tax collection levels?

Jonathan Athow: You are absolutely spot on in the sense that there is that combination of wage and price rises. VAT is charged on the purchase price and, if that purchase price goes up, we get more tax. Therefore, we are seeing some buoyancy.

With income tax, the issue is not just average wages but the distribution of wage growth. If there is more wage growth at the top end of the labour market among the very well paid, where the marginal tax rate is 46 per cent here in Scotland or 45 per cent in the rest of the UK, that obviously brings in more tax receipts than if the wage growth is for basic rate taxpayers. Some of what we have seen, including evidence that has emerged more recently, suggests that some of the buoyancy is because of wage growth among higher-paid people with a higher marginal tax rate.

You are right that inflation tends to boost tax receipts, although there are many other factors at play.

The Convener: My next question is for Alyson Stafford and Fiona Thom. Figure 9 in the NAO report shows where there is most divergence in tax paid by earnings. Those who are on around £50,000 in Scotland pay higher income tax than those in other parts of the UK. In light of that and of what Jonathan Athow has just said, is the Scottish exchequer monitoring the situation? Do you have any sense that tax receipts might be going up, and do you have any plans for how they might be spent if they go up?

Alyson Stafford: I will ask Fiona Thom to come in on the specifics of how the inflation factor works in relation to the fiscal framework. Let me be clear that it would not be about whether I had any plans to spend anything; it would be for the Cabinet or ministers to decide. However, before we all get too excited, I will bring in Fiona Thom.

Fiona Thom: I echo Jonathan Athow's point. For Scottish income tax receipts, Jonathan described one of the effects that inflation has had and that the OBR forecast in its spring statement. The other effect that inflation can have is if bands and rates are indexed by inflation. In the rest of the UK, bands and rates are frozen, so the personal allowance and higher rate threshold are frozen. In our system, we have uprated some of the bands by inflation, which will reduce some of the tax take. There are two kinds of effects, and whichever is the strongest will come through into the overall effect, so we might not see an increase such as the OBR has forecast.

Additionally, we know that fewer taxpayers in Scotland are at the top end of the distribution, which is one of the challenges that we face with the net position for Scotland. We have to wait and see what the Scottish Fiscal Commission publishes in its next forecast, which, as Alyson Stafford said, will be alongside the medium-term financial strategy on 31 May. The commission will consider all those factors.

The Convener: My final question is on a much more mundane and less exciting issue, but one that is very important to us: the service level agreement between the Scottish Government and HMRC. You will have seen that, in the evidence session on 3 February, we explored with Gareth Davies and Stephen Boyle how the agreement currently works and whether it could be improved. I suppose that my question is really about what consideration has been given to the existing terms of the service level agreement and whether it can be improved and cover things such as the tax gap in Scotland, for example.

Alyson Stafford: The service level agreement for 2022 is currently under review, so the committee's consideration is extremely timely for us to take your observations and comments into account. The things that we are looking at and having further discussions with HMRC colleagues on are very much in the data space. We will still see the vigilance on data quality that has been the subject of quite a lot of your scrutiny today, but we are also looking at data breadth and depth so that we will be better able to understand the dynamic of the tax base, and at the timeliness of data.

We absolutely recognise the comments in Audit Scotland's report on the Scotland-specific compliance data, and we are discussing that further with HMRC. Jonathan Athow might wish to comment more—depending on the committee's time—on the feasibility of that. Those are the sorts of things that are essential for us to maximise the fair and proper collection of tax so that we can apply it to public expenditure in Scotland.

The Convener: You can comment without prejudice, if you like, Jonathan.

Jonathan Athow: We are very open to reviewing the arrangements. We have a commitment to make this work in a way that works for the Scottish Government and for the Scottish Parliament's oversight, so we are very open minded on it. There are challenges around some of the data. Sometimes the challenge is not due to a lack of willingness but is about what is practical with the information that we have. However, the position is not static, and what is available today may not be the position on what we can do tomorrow.

The Convener: One of our questions and interests is whether it is the case that the data does not exist or is impenetrable, or whether we could get the wider data set that we think is necessary if the Scottish Government paid more than £700,000 a year for it.

Jonathan Athow: There are obviously some things that can be done, but some of this is much more ingrained in the system. I will give an example. Sometimes what we do to tackle non-compliance, which will affect Scotland, is not about knocking on people's doors, whether in Scotland or in the rest of the UK, but is about making system-wide changes. We are putting in place arrangements whereby self-assessment taxpayers will have to use software to report to us. We think that that will reduce errors. That is an activity that we are undertaking, but it is an activity that will affect all of the UK. I do not know how meaningful it would be if, as an additional activity, we tried to assign different elements of that to different parts of the UK. Sometimes we have to stand back and ask what we are trying to get at, and not just break down the data for the sake of it.

It is a complex picture, but that reflects the complexity of administering the tax system.

The Convener: Finally, do you have a timeframe for when you expect your discussions and negotiations on the service level agreement to be concluded?

Alyson Stafford: That will certainly be during the summer.

The Convener: You think that they will be concluded by September.

Alyson Stafford: Yes.

The Convener: Okay. Thank you.

On that note of clarity, I thank our witnesses Jackie McGeehan, Jonathan Athow, Alyson Stafford and Fiona Thom for the evidence that they have given. We appreciate their time and their contributions.

We will consider what steps to take and how we can keep a monitoring eye on this important work in future. As we have said, we want it, above all, to be evidence led. Whether it is around people's behavioural patterns, compliance rates, collection rates or people fleeing the country in order to evade or avoid tax, those things are important to us, so I thank you very much for your openness in discussing them with us this morning.

11:09

Meeting continued in private until 11:35.

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