

Tuesday, 04 June 2019

Fully Devolved Taxes Policy Unit  
Scottish Government  
Area 3D North  
Victoria Quay  
Edinburgh  
EH6 6QQ

By email

Dear Sir / Madam,

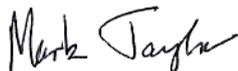
**Consultation on devolved taxes: a policy framework**

Please find Audit Scotland's response to the devolved taxes consultation attached. We have not answered the individual questions in detail as many relate to policy choices and decisions. We have instead provided responses covering specific aspects of the consultation, drawing from our previous audit work where appropriate.

Audit Scotland gives independent assurance that public money in Scotland is spent properly and is providing value for money. We provide services to the Auditor General for Scotland and the Accounts Commission, undertaking annual audits of public bodies, performance audits on specific themes and subjects, and best value audits of councils and partnerships.

We were pleased to contribute to this consultation and I hope you find the attached comments useful. We are happy for the attached response to be published. Please do not hesitate to get in touch if you have any questions.

Yours faithfully,



**Mark Taylor**  
**Audit Director**

# Devolved taxes: a policy framework

## Response from Audit Scotland 04 June 2019

1. Audit Scotland is the independent public sector audit agency undertaking the external audit of the majority of public sector bodies in Scotland. We do this on behalf of the Auditor General for Scotland (for central government and the NHS) and the Accounts Commission (for local government).
2. We have produced a series of reports on how new financial powers are being implemented, and these are available on our [financial devolution e-hub](#). Audit Scotland is also the appointed auditor to Revenue Scotland, who are responsible for collecting and managing Scotland's devolved taxes.
3. Audit Scotland is supportive of steps to improve parliamentary scrutiny of public finances and outcomes in Scotland. The Auditor General for Scotland was a member of the Budget Process Review Group (BPRG), and we welcome the commitment within the consultation document to meet the BPRG recommendations by exploring options for different approaches to legislation for devolved taxes and examining the need for a Finance Bill.
4. Our response focuses on how the devolved tax policy framework could link to the National Performance Framework; what evidence is required to support scrutiny of policy changes; and how this might be presented.

## The National Performance Framework and national outcomes

5. The consultation is clear in its commitment to engagement around fully devolved taxes, and that this can lead to better outcomes for people, families and communities; as well as a more robust, inclusive and sustainable economy. As such, the devolved taxes policy framework should clearly set out how it links to the National Performance Framework (NPF). The NPF sets a vision for Scotland and sets out national outcomes to help achieve this vision. There are eleven outcomes in total, including issues such as children and young people, the economy, culture, and communities. The Scottish Government has committed to focus its activities and spending to help meet these national outcomes.
6. Changes in devolved taxes will affect more than one outcome, and the framework approach should consider the impact that the policy change will have at the outset and throughout. This will help to clarify the purpose of the change when consulting more widely, and to ensure that evidence is collected and available to demonstrate the likely impact of the change.
7. Decisions and policy priorities in different public bodies may result in conflicts between outcomes. A challenge for public bodies will be understanding how different outcomes and pressures can be balanced. Where this occurs, these choices should be documented, showing how different outcomes have been prioritised. For example, recent developments in Air Departure Tax have highlighted that while reducing the tax may help boost tourism and help economic outcomes, increased air traffic could work against environmental ones.
8. Involving the Devolved Tax Collaborative at phase 1 of the legislative and policy cycle may help identify ways that trade-offs between different outcomes could be managed. It may also be useful to involve experts or representatives, depending on the outcomes being considered. For example, this could include stakeholders specialising in environmental or equality issues.

## Evidence to support scrutiny

9. Clear evidence will help improve consultation and parliamentary scrutiny in phases 2 and 3 of the proposed framework. The research, analysis and evaluation in phase 1 should consider whether any gaps in data exist that make determining the tax change's impact more difficult. This could particularly be the case in considering how changes affect different equality characteristics, such as gender, race and disability.
10. The BPRG recommended that the Scottish Government consider the options for estimating the financial impact of the taxation, expenditure and social security proposals contained in the budget on different groups. We are aware that there is work ongoing in the Scottish Government to address this. Where such analysis is not available, consultation documents, reports to parliament and Equality Impact Assessments should be clear about this, and set out what that means for Scottish Government's understanding of the impact of the devolved tax.
11. Changes in tax policy may lead to taxpayers changing their behaviour in order to minimise their tax liabilities. Examples of behavioural responses could include greater use of tax planning (for example, planning out the timings and sources of income to reduce tax liabilities), or in some circumstances arranging their tax affairs to pay UK tax rates rather than Scottish rates. If changes in taxpayers' behaviour in response to a policy change are expected to be significant, it may be appropriate to set these out alongside the expected financial costings.
12. The impact that the devolved taxes have on the Scottish budget is the net effect of the tax revenues raised minus the Block Grant Adjustment (BGA) for that tax. The BGA deducts funding from the Scottish Government's Block Grant, to account for tax revenues the UK Government has foregone as a result of the devolution of that tax. Analysis of the impact of a tax change for these devolved taxes should present forecasts of the revenues alongside forecasts of their BGA.

## Transparency

13. Section 5 of the consultation paper sets out the documents that the Scottish Government publishes to support transparency and scrutiny. The paper states that the Scottish Government will bring together these documents on its website to make these more easily available. The important point for scrutiny of tax changes is that it is clear to the reader why the change is needed, and the evidence is provided to show how tax changes will impact peoples' outcomes. The Scottish Government may wish to consider how to present the linkages between these different aspects in the way that is most clear and helpful to all stakeholders.
14. Section 6 of the paper outlines that there are circumstances in which the full policy cycle will not be followed. The fiscal framework means that tax policy changes made by UK Treasury can have a subsequent impact on Scottish devolved taxes and ultimately Scottish Budgets. The paper sets out that the appropriate approach to consultation will be determined on a case-by-case basis.
15. It will be important to clearly report in such cases why the tax change is exceptional, what consideration was made of the need for further consultation and what analysis of risk was done to reach this conclusion. This report and subsequent scrutiny may happen after the tax change has been made, but the principle of transparency that runs through the policy cycle should also be maintained for the exceptional decisions.