Managing the implementation of the Scotland Acts
Auditor General for Scotland

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Audit team
The core audit team consisted of: Michael Oliphant, Morag Campsie, Anne Cairns, Kirsty Ridd, Agata Maslowska and Veronica Cameron, with support from other colleagues and under the direction of Mark Taylor.

Links
PDF download
Web link
Information box
Key facts

The Scottish Fiscal Commission produced its first forecasts for the 2018/19 draft budget.

- £1.2 billion 1st forecasts
- £200 million
- 1.4 million
- £2.9 billion

Scottish Government’s planned spending for 2018/19 expected to be funded from Scottish taxation and borrowing.

- Estimated annual social security spending being devolved

The new Scottish social security agency will be responsible for payments to an estimated 1.4 million people each year, once it is fully operational.

The Scottish Government will have drawn down the full UK contribution for implementing Scotland Acts powers by 31 March 2018.

- Devolved taxes collected by Revenue Scotland up to 2016/17

Figure is based on 2017/18 prices.
Summary

Key messages

1 The Scottish Parliament’s new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts (the Scotland Acts) are fundamentally changing the Scottish public finances. Implementing these is a large and highly complex programme. The Scottish Government’s social security programme is a key part of this, and the government is committed to having a Scottish social security agency in place to deliver the devolved benefits by the end of the current parliamentary term.

2 The Scottish Government needs to develop the capacity and capability to deliver these changes alongside delivering its continuing responsibilities and preparing for the implications of the UK’s withdrawal from the European Union. It has taken some important steps to assess its workforce and priorities, and now needs to finalise an overall plan and processes to make sure it has the people it needs. It will be challenging to recruit and deploy all the necessary people and skills in time.

3 The Scottish Government has established a new role of Director General Scottish Exchequer, with responsibility for fiscal autonomy and financial sustainability. Governance and organisational arrangements now need to be established to manage the new fiscal risks and opportunities in the budget.

4 The Scottish Government has not estimated the total cost of implementation, or the extent to which this will exceed the UK Government’s agreed contribution. The excess will require funding from the wider Scottish budget. Greater transparency and a better understanding of overall implementation costs are needed to support financial planning and decision-making.

5 The Scottish Government’s social security programme has made good early progress and is now at a critical point as it intends to deliver its first wave of devolved benefits by summer 2019. A significant amount of work is required during 2018 if planned timescales are to be met. This relies on effective working with others such as the Department of Work and Pensions (DWP), and the development and integration of a number of IT systems. Plans need to be fully developed to reflect interdependencies, assurance activities, contingency arrangements and key decision points.
The Scottish Government is currently developing a five-year financial plan to refine the implementation and operational costs of the social security programme. More detailed estimates of costs need to be developed and refined as decisions are made about service delivery and long-term IT solutions.

The initial devolved tax arrangements are now well established. The National Audit Office (NAO) reported that Her Majesty’s Revenue and Customs (HMRC) processes for identifying Scottish taxpayers operated appropriately in 2016/17, but that maintaining accurate address records remains a risk. Air Departure Tax has been delayed until issues related to the Highlands and Islands exemption are resolved. Arrangements for the assignment of VAT are being finalised and need to be in place by summer 2018. Work is under way within the Scottish Government to support agreed changes to the Scottish budget process. This provides the opportunity for it to be clearer about its overall approach to financial management over the medium term.

Recommendations

The Scottish Government should:

- further develop its analysis of workforce capacity and finalise plans to ensure it has the required people in place to meet current and future demands (paragraph 13)
- finalise governance and organisational arrangements for the Scottish Exchequer (paragraphs 21–24)
- identify the expected overall costs of implementing the financial powers in the Scotland Acts, report regularly how much is being spent against what has been planned, and refine cost estimates as detailed decisions are made (paragraphs 30–35).

The Scottish Government recognises that the social security programme is hugely complex and is putting arrangements in place to manage the significant risks. We have identified the following priorities:

- develop and report more detailed estimates of the costs of implementing the social security powers (paragraph 66); regularly review levels of optimism bias (paragraph 64)
- keep under review joint delivery plans for the parts of the system that the DWP is developing on the Scottish Government’s behalf (paragraph 76)
- develop detailed options appraisals and contingency plans for interim and long-term IT components, and ensure key decision points are fully reflected in plans (paragraphs 77–78)
- build enough time into plans for assurance activities, procurement, recruitment and succession planning (paragraphs 79–80).
Background

1. The Scotland Acts devolve a range of powers to the Scottish Parliament. Financial powers are changing substantially with new responsibilities for taxes and borrowing already implemented and with more to follow. About 40 per cent of the Scottish Government’s planned spending for 2018/19 is expected to be funded from Scottish taxation and borrowing. By 2020, this will have increased to about 50 per cent of devolved spending being met by money raised directly in Scotland.

2. A range of other responsibilities are being devolved and implemented, including powers over the Crown Estate’s economic assets in Scotland, policing of the railways, drink-driving limits and licensing for onshore oil and gas extraction. Social security is the most significant area of spending responsibility being devolved. This will see 11 current benefits delivered with spending estimated to be about £2.9 billion every year once fully implemented. This represents about 15 per cent of overall current social security spending in Scotland.

3. As a result of these increased responsibilities, managing Scotland’s public finances is fundamentally changing. The Scottish budget is becoming increasingly complex. It is also subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government. The way the Scottish economy performs relative to the rest of the UK will have a greater influence on public finances than ever before. The Scottish Government has more choice over tax and spending, and more decisions to make about how and when to use its borrowing and reserve powers.

4. Implementing these powers is a huge and complex programme of work for the Scottish Government. It involves developing policy and legislation, establishing new public bodies and introducing new processes. The Scottish Government started implementing the powers from the Scotland Acts in 2012 and work will continue until at least 2021. This report focuses on the powers set out in Exhibit 1 (page 8).

5. The fiscal framework sets out the financial rules and arrangements for managing the tax, borrowing, reserve, and social security powers of the Scotland Acts. This includes calculating the grant received from the UK Government, borrowing limits, and preparing fiscal and economic forecasts. Embedding effective arrangements for managing the new powers within the fiscal framework is essential. Clearly explaining and reporting each element of the budget will become increasingly important as the budget becomes more complex.

6. During 2016, the Scottish Parliament and Scottish Government set up the Budget Process Review Group to fundamentally review the budget process after the Scotland Acts powers were devolved. Prior to this, Parliament’s scrutiny of the budget focused on the Scottish Government’s allocation of spending. The group published its final report in June 2017 making 59 recommendations. The Cabinet Secretary for Finance and Constitution welcomed the group’s work in September 2017. He confirmed the government would implement recommendations as quickly as possible, starting with the 2018/19 draft budget process. The recommendations should lead to a new process for the 2019/20 budget cycle.
## Exhibit 1
Timeline for new financial powers

<table>
<thead>
<tr>
<th>From 2015</th>
<th>Land and Buildings Transaction Tax</th>
<th>£588 million¹</th>
<th>Forecast revenue for 2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 2015</td>
<td>Scottish Landfill Tax</td>
<td>£106 million</td>
<td>Forecast revenue for 2018/19</td>
</tr>
<tr>
<td>2017</td>
<td>Control over income tax rates and bands</td>
<td>£12.2 billion²</td>
<td>Forecast revenue for 2018/19</td>
</tr>
<tr>
<td>2017</td>
<td>Increased borrowing and reserve powers over:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Revenue borrowing</td>
<td>£1.75 billion</td>
<td>Annual limit</td>
</tr>
<tr>
<td></td>
<td>• Capital borrowing</td>
<td>£3 billion</td>
<td>£600 million</td>
</tr>
<tr>
<td>2017</td>
<td>• Scotland Reserve</td>
<td>£700 million</td>
<td>15% of overall limit</td>
</tr>
<tr>
<td>2017</td>
<td>Scottish Fiscal Commission became a statutory body</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Employability transitional services introduced</td>
<td>£11 million</td>
<td>Forecast spending 2017/18</td>
</tr>
<tr>
<td>2017</td>
<td>Crown Estate Scotland established</td>
<td>£6 million</td>
<td>Estimated net revenue 2017/18</td>
</tr>
<tr>
<td>2018</td>
<td>Fair Start Scotland (fully devolved) replaces employability transitional services</td>
<td>£24 million³</td>
<td>Forecast spending 2018/19</td>
</tr>
<tr>
<td>2018</td>
<td>Social security agency due to be launched</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>VAT: the first 10p of standard rate of VAT (and 2.5p of reduced rate) raised in Scotland will be assigned to Scottish budget</td>
<td>£5.1 billion</td>
<td>Estimated gross assigned revenues based on 2016/17 figures</td>
</tr>
<tr>
<td>By 2021</td>
<td>Responsibility for 11 social security benefits and the power to top up reserved benefits and create new ones</td>
<td>£2.9 billion</td>
<td>Estimated spending 2017/18 prices</td>
</tr>
<tr>
<td>2019</td>
<td>Aggregates Levy</td>
<td>£59 million</td>
<td>Estimated revenues based on 2016/17 figures. Devolution date to be confirmed.</td>
</tr>
</tbody>
</table>

### Notes:
1. Including the Additional Dwelling Supplement.
2. Non-savings non-dividend income tax replaced Scottish Rate of Income Tax (SRIT). SRIT was introduced in April 2016 and estimated revenues are £4.6 billion.
3. Including additional spend for the transitional service as set out in the Scottish Fiscal Commission’s forecasts, December 2017.

7. The UK will leave the European Union (EU) on 29 March 2019. At the time of reporting, negotiations were ongoing and it was unclear what this would mean for Scotland. It is likely to have implications for Scottish public finances and how they are managed. It adds more complexity to the environment in which the Scottish Government operates and is likely to impact on how it manages and implements the provisions in the Scotland Acts.

About this audit

8. This report builds on our three previous reports looking at how the Scottish Government is managing the implementation of the financial provisions in the Scotland Acts 2012 and 2016, published in December 2014, December 2015 and March 2017. This report examines how the Scottish Government is organising itself to manage the ongoing implementation of the Scotland Act powers and the possible impact of the UK’s withdrawal from the EU. The main focus of this report is on examining the Scottish Government’s progress in planning for the implementation of the social security powers. It also considers progress in implementing the devolved, assigned, and shared taxes, and the establishment of the Scottish Fiscal Commission (SFC) and Crown Estate Scotland. Our audit assesses progress up to 31 January 2018, while acknowledging that substantial activity is ongoing.

9. The report has three parts:

- Part 1 (page 10) examines the Scottish Government’s overall workforce planning and capacity for managing the implementation of the Scotland Acts alongside other commitments and the impact of the UK’s withdrawal from the EU.

- Part 2 (page 19) assesses the Scottish Government’s progress in delivering the new social security and employability powers.

- Part 3 (page 39) summarises the progress of the SFC, the way the Scottish Government is managing and implementing various fiscal powers and establishing Crown Estate Scotland.

10. Our findings are based on reviewing documents and talking to staff from organisations involved in implementing the new arrangements. Our audit methodology is summarised in the Appendix (page 47).

11. You can find all of our work on the financial powers in the Scotland Acts on our website.
Part 1
Scottish Government’s capacity and capability

Key messages

1 Implementing the new financial and social security powers is a large and highly complex programme. The Scottish Government needs to develop the capacity and capability to deliver these changes alongside its continuing responsibilities and preparing for the implications of withdrawal from the EU. It has taken some important steps to assess its workforce and capacity. It has reviewed recruitment policies, and developed a talent management programme, and it is refining processes for monitoring and forecasting staff numbers and skills. Work is under way to develop a five-year workforce model. The Scottish Government needs to establish plans and processes to make sure it has the people it needs to deliver its responsibilities now and in the future.

2 About 110 staff have transferred to the social security programme from within the Scottish Government creating workforce pressures in other directorates. The government expects the new social security agency will employ at least 1,500 people when it is fully operational. It will be challenging to recruit the necessary staff numbers and skills to deliver the new powers.

3 The Scottish Government revised its governance and operational structures in 2017 to reflect the demands of the Scotland Acts. A new role of Director General Scottish Exchequer was created with responsibility for fiscal policy and financial sustainability. It has taken some time to establish governance and organisational arrangements for this. These now need to be implemented quickly to help manage the new fiscal risks and opportunities in the Scottish budget.

4 Under the fiscal framework, the UK Government will contribute £200 million to the costs of implementing the new powers. The Scottish Government will have drawn down all of this by 31 March 2018 and will have spent about £62 million at this point. The Scottish Government has not estimated the total overall cost of implementation. The excess will need to be funded from the wider Scottish budget. Greater transparency and a better understanding of the overall implementation costs is required to help financial planning and decision-making.

5 The Scottish Government has effective working relationships at an official level with UK Government bodies, such as the DWP and HMRC. These relationships are vital to enabling the smooth implementation and operation of the new powers.
The types of skills required to implement and manage the financial powers are changing

12. The scale of change needed to implement and manage the new financial powers has significant staffing implications for the Scottish Government. The Scotland Acts introduce additional responsibilities including developing new policy and legislation, establishing new public bodies and introducing new processes. More work will be created and there will be substantial changes in the type of work the Scottish Government will do. For example, there is now a greater need for longer-term financial and economic modelling and forecasting than ever before. Knowledge of new policy areas such as taxation, social security, and the IT infrastructure required to deliver these is needed. This requires more staff and more specialist skills. The Scottish Government also needs to deliver its current business and respond to the impact of the UK leaving the EU in March 2019. At this stage it is unclear if this will bring any changes to responsibilities.

The Scottish Government is developing a workforce model to set out the skills and number of staff it needs

13. At 30 September 2017, the Scottish Government directly employed 5,424 full-time equivalent (FTE) staff across its main directorates. This is an increase of five per cent from 5,150 FTE staff at 30 September 2016. The Scottish Government is developing a five-year workforce model as part of its ongoing change programme called SG2020. Workforce planning is a fundamental part of the SG2020 change programme. It starts the process of integrating workforce planning approaches into processes at all levels of the organisation as recommended in our March 2017 report, but there remains much more to do.

14. During 2017, the Scottish Government developed and implemented a process for monitoring and projecting the current and required number of staff, roles, and related costs within each directorate. This has helped gather important information on its workforce requirements. The Scottish Government is building a picture of each directorate’s current and future requirements by collating and analysing this information centrally. This allows it to identify where there are gaps and where opportunities exist to share skills across directorates. In November 2017, it identified it needed to recruit between 150 and 200 staff to fill vacancies to meet current demands and was developing a plan to manage this.

15. As part of this work, the Scottish Government has identified a number of specialist skills as being required across directorates to meet the demands from the new powers and as a result of leaving the EU, including:

- programme management
- specialist IT skills, including cyber security
- negotiation skills
- economic analysis and modelling
- financial analysis.

16. The Scottish Government recognises that the required skills have changed from generalist skills to more specialist skills. For example, it has always needed people with skills in finance and economic analysis. But there is now
greater demand for people with more specific economic modelling skills across directorates to assist with medium and long-term financial planning. This is increasingly important as Scotland’s public finances are more closely tied to how the Scottish economy performs.

17. It will be challenging for the Scottish Government to get the number of people and skills it needs in time. Assessing the types of skills and the number of people it needs now, and in the future, is an important first step. This information will help the Scottish Government recruit and use staff skills more efficiently and effectively. This will involve either developing the skills of existing staff through its talent management programme, or buying in or recruiting specialist skills.

18. The specialist nature of some of these roles means they are often in short supply, and there is external competition for their recruitment. During the year, the Scottish Government used different ways to help recruit more quickly. For example, the recruitment process was streamlined and pay supplements are offered for some specialist roles such as in digital technology, and for commercial skills such as procurement. These processes, workforce modelling and plans need to be quickly established to ensure the Scottish Government has the capacity to meet its current and future needs.

There is competing demand for certain skills within the Scottish Government
19. There is competition for skills within the Scottish Government itself. The new social security directorate is attracting staff from across government, including senior finance and IT roles. This transfer of staff is putting pressure on other Scottish Government directorates. At the end of October 2017, almost 40 per cent of the 300 staff recruited to the social security directorate had come from other parts of the Scottish Government. This is about two per cent of the Scottish Government’s total staffing (paragraph 13). This has put pressure on other directorates’ ability to deliver business-as-usual activities, other new powers, and plan for the impact of the UK’s withdrawal from the EU as they seek to find replacements.

20. The Scottish Government’s central finance function analysed its financial capacity during 2017. This examined whether it currently has enough people with the required skills, what it will need in the future, and if the operational and governance structures in place were suitable to support future work demands. It found the demand for financial expertise and assistance is increasing across government and that there is a need to increase the capacity and resilience of the central finance team. A new project led by the Scottish Government’s Director General Scottish Exchequer will consider these issues in line with the overall SG2020 work.

Governance structures were reviewed to oversee the delivery of the financial powers
21. In July 2017, the Scottish Government made changes at executive team level. These included creating the post of Director General Scottish Exchequer to better reflect Scotland’s new fiscal responsibilities and a Chief Financial Officer role to cover in-year financial management and operations. We reported in September 2017 that these changes provide an opportunity for the Scottish Government to strengthen oversight of public financial management during a period of significant change for Scotland’s public finances.
22. The Fiscal Responsibility Steering Group (FRSG) was originally set up to oversee the implementation of the devolved powers of the Scotland Acts. This included overseeing the development of required legislation and the establishment of new bodies, such as the SFC. A number of governance boards reported to the FRSG including the Fiscal Framework Implementation Board.

23. In December 2017, an internal audit governance review found that the role of the FRSG was unclear, and that it had not met in 2017. At this point, a number of arrangements of the Scotland Acts were still to be established and agreed. For example:

- arrangements for borrowing and use of reserves
- devolving Air Departure Tax
- the methodology for assigning VAT revenue.

24. The Fiscal Framework Implementation Board oversaw work in this area during this period. It met in June 2017, and was provided with an update on progress in these areas in October 2017. A programme to establish new governance arrangements in this area, known as the Finance Change programme, commenced in January 2018. These new arrangements will oversee the critical functions and projects set out in Exhibit 2 (page 14). It is important that the Scottish Government establishes these arrangements quickly to ensure oversight of these critical areas.

Greater transparency is needed about the costs of implementing the Scotland Acts

25. There is a need for greater transparency over the costs to the Scottish Government of implementing the new financial powers. This includes how the Scottish Government allocates its budget each year for the implementation of the devolved powers. There is also a need for greater clarity over how underspends against tax and non-tax implementations costs are managed and where budget transfers take place. The increasingly complex nature of Scotland’s public finances increases the importance of clear and consistent budget and financial reporting which, in turn, helps promote public trust and understanding of the new public spending environment.

26. The fiscal framework sets out how the UK and Scottish governments will share the cost of implementing and administering the powers of the Scotland Act 2016. The Scottish Government will have drawn down the full £200 million UK Government contribution towards implementation costs in 2017/18. This is a contribution rather than reimbursing specific areas of spending. The Scottish Government plans to carry forward unused amounts in the Scotland Reserve for future years. This will need to be carefully managed and transparently reported. The Scottish Government plans to report on these costs in its annual report on the implementation of the financial provisions of the Scotland Acts. It has also committed to providing further information on the use of the Scotland Reserve in its first Fiscal Framework Outturn Report by September 2018.

27. It will cost much more than £200 million to implement all the powers, this will be funded from the Scottish budget. The Scottish Government estimates that the social security powers alone will cost £308 million to implement over the next four years (Exhibit 7, page 26).
Exhibit 2
Scottish Government corporate governance arrangements for the implementation and management of the Scotland Act powers

Notes:
1. The remits and memberships of the proposed Economy Board and Scottish Exchequer Committee are under consideration.
2. The Constitution and Europe Programme Board oversees the Scottish Government’s work on the impact of the UK’s withdrawal from the EU. This board was set up during 2017 and consists of representatives from across government.

Source: Audit Scotland
28. The UK Government will also transfer up to £66 million each year to the Scottish Government budget as a contribution to the ongoing administration costs of the powers. In 2017/18, £22 million was transferred with £37 million and £51 million planned for 2018/19 and 2019/20 respectively. The full £66 million will be drawn down each year from 2020/21.

Budgeting for new financial powers needs to be improved
29. The budget for implementing the new powers sits within the Scottish Government’s Finance and Constitution portfolio under ‘tax’ and ‘non-tax’ implementation (Exhibit 3). No detailed breakdown to the level of each individual tax or power is provided. In 2017/18 and 2018/19, a total of £176 million was budgeted for implementation costs.

Exhibit 3
Scottish Government budget for implementation

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>£12 million</td>
<td>£8.6 million</td>
</tr>
<tr>
<td>Non-Tax implementation</td>
<td>£80 million</td>
<td>£75 million</td>
</tr>
<tr>
<td>Tax implementation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>£92 million</td>
<td>£83.6 million</td>
</tr>
</tbody>
</table>

Source: Scottish Government

30. At the time of publishing its 2017/18 draft budget the Scottish Government had not prepared detailed spending estimates for the social security programme, the main component of non-tax implementation spend. As decisions about how the social security powers would be delivered and forecast spending became clearer, £16 million was transferred to the Communities, Social Security and Equalities portfolio as part of the Spring Budget Revision in February 2018. There was no budget allocated for social security programme spending in the Scottish Government’s 2018/19 draft budget. The Scottish Government will make a subsequent budget transfer at the Spring Budget Revision in 2019. More comprehensive information of the cost of implementing the new powers should be included within the draft budget each year. This will help transparency and better inform decision-making.
Scottish Government’s estimated spending on implementation will be £62 million by 31 March 2018. By the end of 2016/17, the Scottish Government had spent £31 million on programmes to implement the Scotland Acts powers. It forecasts spending a further £31 million on implementing the powers in 2017/18 at the time of reporting (Exhibit 4).

Exhibit 4
Cost of implementing the new powers up to 2017/18
The figures in the following table were collated from a combination of internal Scottish Government documents and published reports.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Total cost up to 2016/17 £ million</th>
<th>Forecast outturn for 2017/18 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Devolved taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT)</td>
<td>6.4</td>
<td>N/A</td>
</tr>
<tr>
<td>Air Departure Tax (ADT)</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Aggregates Levy</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Shared and assigned taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scottish Rate of Income Tax (SRIT)</td>
<td>17.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Scottish Income Tax (non-savings non-dividend)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td>0.1²</td>
<td>0.2²</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social security</td>
<td>5³</td>
<td>24.7³</td>
</tr>
<tr>
<td>Employability services</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Crown Estate Scotland</td>
<td>0.2⁴</td>
<td>N/A</td>
</tr>
<tr>
<td>Scottish Fiscal Commission</td>
<td>1</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30.7</strong></td>
<td><strong>31.4</strong></td>
</tr>
</tbody>
</table>

N/A – ‘not applicable’ because the power or body is now operational

Notes:
1. The figures represent the best available information at the time of our audit. As the information is collated from a number of different sources it may be subject to timing differences.
2. Amount Scottish Government paid, or is due to pay HMRC.
3. 2017/18 social security forecast spend is £16 million of programme spend and £8.7 million from the staff administration budget. 2016/17 figure includes both programme and staff administration spend.
4. Scottish Government’s programme and staff administration costs for Crown Estate transition and management.
Source: Audit Scotland using information provided by the Scottish Government and Revenue Scotland
The Scottish Government has not set out the total cost of implementing and administering the new powers beyond 2018/19

32. Our March 2017 report recommended that the Scottish Government should develop more detailed estimates of how much it will cost to implement the powers, and refine them as policy decisions are made about how they will be delivered. Some individual programmes, such as social security, do this but there is currently no complete picture across the Scottish Government.

33. Accurately identifying potential costs is complex. The Scottish Government needs a better understanding of what it has spent to date on implementation and ongoing administration. This will help inform its budgets and medium and longer-term financial plans. Modelling these costs becomes even more important with the UK’s decision to leave the EU. Having a clear understanding of the Scotland Acts implementation costs will help the Scottish Government understand the potential cost of implementing any further devolved powers in the future.

34. The Scottish Government does not separately record or monitor the activities and costs that relate solely to the management of the Scotland Acts powers once they become part of the Scottish Government’s business-as-usual activities. Ongoing costs are included as part of the Scottish Government’s overall budget. This makes it more challenging to estimate the potential financial impact of implementation costs as policy decisions are made, and how it will fund the new financial powers over the coming years.

The cost of implementing and administering the new powers are not reported to senior levels within the Scottish Government

35. Our March 2017 report highlighted that the costs of implementing and administering the powers of the Scotland Acts had not been reported to the appropriate governance boards. The Scottish Government Corporate Board receives a detailed finance report at each meeting explaining performance against the overall Scottish budget and the measures being put in place to manage under and overspends. This report does not include information on how much has been spent on implementing and administering the new powers. It is important governance boards are able to scrutinise these costs and understand the impact of implementing and managing the new powers on the Scottish Government’s budget.

Successfully implementing the new powers relies on working well with other UK bodies

36. Successfully implementing and managing the Scotland Acts powers requires good working relationships between a number of UK bodies. This includes the DWP, HMRC, and Her Majesty’s Treasury (HMT). The Scottish Government works with them, and other bodies, such as Revenue Scotland, in a number of areas including:

- coordinating and developing integrated programme plans
- coordinating legislative processes and timetables to ensure smooth transition of powers
- developing secure IT systems and platforms to share and process data, and make payments
- developing training and marketing materials to ensure staff and members of the public understand changes being made.
37. The Scottish and UK governments co-chair joint-government forums that are responsible for agreeing how aspects of the Scotland Acts and fiscal framework will operate (Exhibit 2, page 14). These include:

- The Joint Exchequer Committee (JEC)
- Joint Exchequer Committee Officials (JECO)
- Joint Ministerial Working Group on Welfare (JMWGW)
- Joint Senior Officials Group (JSOG), which supports JMWGW.

38. We found evidence of regular engagement between the Scottish Government and UK Government bodies at strategic and operational levels including at Director-General, Director, and operational management level across all aspects of the new financial powers programme.

39. Coordinated and constructive relationships are required to implement and operate all the powers of the Scotland Acts. Joint arrangements need to be transparent, so that key decisions are understood and subject to appropriate Parliamentary scrutiny. Nowhere is this more critical than for implementing the social security powers. This is a huge and wide-ranging programme of work for the Scottish Government that we cover in more detail in Part 2 (page 19) of this report. The Scottish Government is implementing this work with its main partner, the DWP, and is relying on its contribution in key areas to deliver on time. This requires careful management and continuous engagement at all levels of government.
Part 2
Social security and employability programmes

Key messages

1. The Scottish Government has committed to having a Scottish social security agency in place to deliver the devolved benefits by the end of the current parliamentary term. It is due to take on overall responsibility and accountability for existing devolved benefits from UK ministers by no later than 1 April 2020. Its social security programme has made good early progress and is now at a critical point as it moves into its initial phase of delivering devolved benefits. It is learning lessons from previous public sector programmes by delivering in phases, and involving users in designing policies, processes and IT systems.

2. Parliamentary consideration of the Social Security Bill is progressing to the planned timetable. Universal Credit Scottish Choices was delivered on time in October 2017. The remaining first wave of benefits of Carer’s Allowance Supplement, Best Start Grant and Funeral Expense Assistance is due to be delivered by summer 2019.

3. A significant amount of work is required during 2018 if the planned timescales are to be met. Successful delivery relies on effective working with others such as the DWP and the development and integration of a number of complex IT systems. Some interim IT systems will be used while long-term solutions are considered. This will require comprehensive assessments of the risks and benefits of each option. The Scottish Government is refining delivery plans. These need to fully reflect interdependencies, assurance activities, contingency arrangements and key decision points, and highlight risks to overall programme capacity.

4. Clear governance arrangements have been established and revised as different phases of the programme are reached. Current arrangements are bedding in; they will need to be kept under review to ensure they are well understood by staff and remain effective as the pace of the programme increases.

5. Budgeting, financial monitoring and reporting require further development to enhance transparency and support effective scrutiny. More detailed estimates of costs need to be developed and refined as decisions are made about service delivery and long-term IT solutions.

6. Initial preparations to establish the new social security agency in time to deliver the Carer’s Allowance Supplement from summer 2018 are well under way. Interim accommodation is being identified, and reasonable progress is being made to manage the initial transfer of staff and skills from the programme team. Agency governance
arrangements are being developed and will need kept under review. The size and complexity of the agency will increase significantly as it becomes fully established to deliver the full range of devolved benefits.

7 The Scottish Government launched two transitional employability schemes, Work First and Work Able Scotland, in April 2017. It has learned lessons from implementing these schemes to inform its fully devolved service, Fair Start Scotland, which launches in April 2018.

Devolution of social security is a large, complex programme of work

40. The Scotland Act 2016 devolves a range of social security powers to the Scottish Parliament. These cover 11 existing benefits totalling about £2.9 billion of spending. This is 15 per cent of the UK Government’s social security spend in Scotland and includes benefits for carers, disabled people, some ill-health related benefits, parts of the Social Fund and Discretionary Housing Payments (Exhibit 5, page 21). The Act also allows the Scottish Government to create new benefits in devolved policy areas within certain restrictions. DWP and HMRC will continue to deliver reserved benefits and tax credits.

41. The Scottish and UK governments have agreed to take a phased approach to transferring operational responsibility for delivering the devolved benefits. This is to support a safe and secure transition. In May 2017, the Scottish Government announced that the first wave of benefits to be delivered would be a Carer’s Allowance Supplement, Best Start Grant (replacing the Sure Start Maternity Grant), Funeral Expense Assistance (replacing Funeral Expenses Payments), and Universal Credit Scottish Choices.

42. A social security programme (the programme) has been established within the Scottish Government’s Social Security Directorate. The programme is responsible for establishing all the necessary arrangements to deliver the devolved benefits including setting up a Scottish social security agency, and the required operational and IT systems. This is a complex and wide-ranging programme of work.

43. The programme has prioritised learning from other Scottish and UK public sector IT-enabled projects. It continues to hold lessons-learned workshops to learn from experience and share knowledge. We found a number of examples where it is putting some of these lessons learned into action. For example:

- People from teams across government (including policy, service delivery, and digital), benefit claimants, and some local authority officials have been involved in planning and designing policy and the required systems. Benefit claimants will also be involved in testing IT systems once they have been developed.

- The programme is being delivered in waves, breaking it down into manageable stages.

- Adjusting governance arrangements as the programme moves into delivery phase to allow fast decision-making and align with Agile delivery (paragraph 44).

- Getting a better understanding of potential risk areas by looking at other public sector IT programmes.
Exhibit 5
Timeline of the social security powers being devolved through the Scotland Act 2016

Notes:
1. Scottish Fiscal Commission’s forecast expenditure for the programme in 2017/18 and 2018/19. Providers are paid according to the number of people that move into sustained employment.
2. This is the total contract value of this programme and will be paid into 2023.
3. The benefits figures are 2016/17 spend and recipient numbers taken from Social Security for Scotland: Benefits being devolved to the Scottish Parliament, Scottish Government, December 2017. Carer’s Allowance Supplement and the additional amounts for the Funeral Expense Assistance and Best Start Grant relate to the Scottish Government’s intended expansion of these benefits, as set out in the Financial Memorandum to the Social Security (Scotland) Bill (June 2017). Cold Weather Payments can vary significantly year on year depending on the severity of the winter. Approximate number of payments shown instead of recipient number.

Source: Audit Scotland, using data from the Scottish Government and the Scottish Fiscal Commission
44. The programme is using a hybrid approach to programme management. The overall programme is being managed using traditional PRINCE2 frameworks for planning and monitoring. Specific projects, such as those requiring the development of IT systems, are managed using Agile delivery methodologies. This involves building software iteratively and testing it with users throughout development. The programme has invested in Agile training for staff at all levels of the directorate. This is something that we have previously highlighted as important when using an Agile methodology. An Agile coach has also been employed to support staff.

**Good governance arrangements have been established but need to be kept under review**

45. The importance of clear and active governance arrangements for delivering programmes is well documented. This is one of the key principles in our *Principles for a digital future* briefing published in May 2017. Our briefing highlighted the importance of flexing arrangements to fit project management approaches, considering the speed of delivery, control, and decision-making required. The Scottish Government recognises that the social security programme is hugely complex and is giving it a high profile and clear leadership.

46. The Social Security Programme Board (the board) is chaired by the Scottish Government’s Director General of Organisational Development and Operations, who is the Accountable Officer for the programme. The board oversees the work of the programme and is responsible for delivering the devolved powers, including setting up a social security agency. Its membership includes non-executive members and representatives from other Scottish Government directorates including digital, finance, and procurement. A senior representative from the DWP also attends board meetings.

47. Board members have a good mix of skills and experience relevant to the programme. The programme involves developing and integrating a number of complex IT systems. The board would be further enhanced by having another member with experience of large, complex digitally enabled transformation programmes.

48. The board meets every six weeks. It receives progress updates and reviews existing and emerging risks at each meeting. Papers are generally of good quality and a wide range of programme staff are invited to present at board meetings when relevant. For issues that the board cannot resolve, escalation routes to the next line of governance are clearly set out. To date no issues have required escalation.

**Governance arrangements were revised to help quicker decision-making**

49. The programme revised its governance arrangements in October 2017. This was to reflect it moving into the delivery phase for the first wave of benefits and to help make decisions faster. Exhibit 6 (page 23) sets out the revised governance structure. Previously, decisions sometimes had to be taken outwith board meetings because the meetings were not held frequently enough. For example, approving the business case for appointing a contractor for the low income benefit project happened through email to allow timelines to be met. The decision was discussed and recorded at the next board meeting.

50. In November 2017, a new programme delivery board, chaired by the programme director, was established to support the main programme board. It provides more routine challenge and oversight of delivery and meets every two weeks to allow for timely decision-making. The programme has committed to reviewing the frequency and order of all meetings in early 2018 once the new arrangements are more established, to ensure these are effective.
Exhibit 6
The social security governance structure from November 2017

All previous project boards were replaced by service teams/multidisciplinary teams with the exception of the Agency Set-up Board which remains in place.

Paragraph 87

Source: Scottish Government
The Scottish Government has demonstrated good practice by establishing multidisciplinary teams in line with an Agile delivery approach. Each team has staff from different areas within the social security directorate and wider Scottish Government. External suppliers and contractors are also part of the teams. This structure gives delivery-level staff responsibility to progress the programme, allows quicker decision-making, and makes it easier to adapt and learn from day-to-day experience.

Various management boards oversee the work of these teams (Exhibit 6, page 23). Through the change control board, clear arrangements have been established to review and approve changes the delivery level teams propose that would impact on key programme and project milestones.

Risk management arrangements are well established. Risk management reports are presented to each programme board meeting. As the governance structure has been refreshed, responsibility for specific risks has been maintained. Effective escalation processes are in place between service areas, the risk review board and the programme board.

The programme has demonstrated good practice by revising its governance arrangements to reflect the needs of the programme. This needs to be balanced with ensuring arrangements are well developed, understood and embedded. The programme now needs to ensure all arrangements and controls are revised and finalised within the refreshed structure. As key programme milestones approach, timescales tighten and budget flexibility reduces, the programme should keep its arrangements under review to ensure they remain effective and fit for purpose.

Good early progress has been made but substantial work is required to deliver benefits on time

The Scottish Government has committed to having a Scottish social security agency in place to deliver the devolved benefits by the end of the current parliamentary term (Exhibit 5, page 21). It plans to do this in a phased approach to prioritise the safe and secure transition of the benefits. It intends to deliver the benefits to new claimants first and then transfer existing claimants over at a later date. The Scottish Government is due to take on responsibility and accountability for existing devolved benefits from UK ministers no later than 1 April 2020.

The Social Security Bill was introduced to the Scottish Parliament in June 2017. The Bill sets out an overarching approach to delivering the devolved social security benefits, setting out key principles and arrangements. The Bill proposes that the specific details for each benefit will be set out in regulations once the Bill has passed into law rather than being in the primary legislation itself. Progress of the Bill is currently on track to become law by summer 2018.

Universal Credit Scottish Choices was launched as planned in October 2017 (Case study 1, page 25). The other wave one benefits are on track compared to planned delivery dates (Exhibit 5). Progress is still at an early stage and significant work is required in 2018 if the programme is to meet these timescales. This includes launching the new social security agency and developing the complex IT components that will support business processes and make benefit payments.
Case study 1

Universal Credit Scottish Choices was delivered on time

The Universal Credit Scottish Choices (UCSC) was launched as planned on 4 October 2017 for new recipients in ‘full service Universal Credit’ service areas. On 15 December 2017, regulations were laid in the Scottish Parliament to extend this to existing claimants in ‘full service Universal Credit’ areas and claimants transferring from live to full service, from 31 January 2018.

Scottish Government analysis shows that between 11 November and 31 December 2017, 2,100 claimants requested to be paid twice monthly and 1,000 chose to have the housing element of UC paid directly to their landlords, and of those, 520 requested both of the choices.

The Scottish Government will reimburse the DWP for costs incurred to administer the UCSC on its behalf. It cost £0.6 million to implement the arrangements in addition to an estimated £0.4 million for the ongoing DWP operational costs in 2017/18. The costs are estimated to rise up to £1.6 million in 2018/19 and then £1.8 million in 2019/20 as ‘Universal Credit full service’ is rolled out.

The operational costs are based on estimated take-up rates and administration requirements. The Scottish Government will agree revised costs with DWP from April 2018 and these will be reviewed on an annual basis to reflect actual take-up rates.

Source: Audit Scotland

58. The programme delivery plan is being refined and developed to more clearly identify dependencies and decision points. Planning beyond the first wave of benefits is currently at a high level as decisions about timings and some key processes have not yet been made, reflecting the phased approach to implementation. The Joint Senior Officers Group (JSOG) is due to consider post-wave one planning in early 2018.

59. Effective planning will be increasingly important as the programme moves beyond wave one. Wave one involves a substantial amount of groundwork to support delivery of all the devolved benefits. The remaining benefits will account for 98 per cent of overall social security spending and involve more complex assessment processes and eligibility criteria than those in wave one.

60. The timescales outlined in programme plans will be very challenging and need to be managed very carefully. Based on current programme plans, the delivery of the post wave one benefits will need to start very quickly after the launch of wave one. This leaves little time to resolve any issues with delivery of wave one. While the programme is sharing lessons across teams as work progresses, it is not clear whether enough time is built in to allow for effective review and learning from wave one.
The costs of implementing the social security powers are significant

61. The costs of setting up the staff, processes and IT systems to deliver the devolved social security powers are significant. As set out in Part 1, under the terms of the fiscal framework, the UK Government contributes to a share of the implementation costs of all the devolved powers (paragraph 26). By the end of 2017/18 the Scottish Government will have drawn down the full £200 million contribution. This means it will have to fund the remaining implementation costs.

62. The Financial Memorandum to the Social Security Bill sets out the Scottish Government’s initial high-level estimated costs for implementing the devolved social security powers (Exhibit 7). These costs will be phased over four years and estimates will be refined as decisions are made about service design and delivery.

Exhibit 7
Scottish Government’s estimated implementation costs for social security

- **Estates £14m**
  Costs include estimates for fitting out the two main offices plus the fit-out of co-located offices. This total does not include the lease costs for the two main agency buildings.

- **IT £190m**
  Costs relate to the IT systems required to support Scottish social security services. Initial discovery work provided an understanding of user needs, and the required IT systems. Cost information from existing IT framework contracts and costs from projects requiring similar types of systems were used to estimate the costs. The IT infrastructure required to support and deliver the benefits is complex (paragraphs 69-74).
  Estimated costs will be refined as decisions are made about short and long-term IT solutions.

- **Staff £104m**
  Costs were based on estimates of the staff required for the implementation project in 2017/18 with increases factored in for future years to 2020/21.

Source: Financial Memorandum to the Social Security (Scotland) Bill, Scottish Government, June 2017
63. The estimate for IT costs includes an adjustment for optimism bias of £127 million. HM Treasury Green Book guidance recommends that an adjustment is made to all project estimates to allow for overly optimistic estimates of cost and time. The Scottish Government applied the recommended 200 per cent upper limit to its estimated IT costs.

64. It is good practice to regularly review and reduce the level of optimism bias as information and costs become more certain and as risks are mitigated. This improves transparency by allowing budgets to be adjusted downwards as decisions are made and plans clarified to help effective budget setting, monitoring and scrutiny. The Scottish Government will need to monitor and show how the assumptions and risks are changing as decisions are made and revise the levels of optimism bias, as set out in the Financial Memorandum, as a result.

The Scottish Government estimates it will have spent £30 million on the social security programme by 31 March 2018

65. At 31 March 2017, the Scottish Government had spent £5 million on the implementation of the devolved social security benefits. Its forecast spending in 2017/18 is estimated to be £25 million (Exhibit 4, page 16). This increase reflects more staff recruitment, lease and fit-out costs for premises and payments to IT contractors. The forecast spend is funded by £16 million from the non-tax implementation budget plus £9 million from the Scottish Government’s administration budget.

Assessment of costs, financial monitoring and reporting requires further development

66. The budget for non-tax implementation costs sits within the Scottish Government’s Finance and Constitution portfolio budget. In 2017/18 and 2018/19 the budgets for non-tax implementation costs were £80 million and £75 million respectively (Exhibit 3, page 15). The social security programme budget is included within this, but it is not separately identifiable within the Scottish Government’s draft budget documents for these years. Greater transparency is required in how the Scottish Government sets out its anticipated spending on the social security programme to better inform the public and Parliament and allowing for effective scrutiny.

67. The programme’s financial reporting board was set up in August 2017, 11 months after the programme was established. The programme board first received a financial monitoring report in October 2017. This provided high-level details of the overall budget, spending to date, and forecast spending to the year end. It did not clearly explain how the programme was performing against budget for each programme area or provide explanations for any increases or decreases in spending. Financial reporting to the programme board has improved since then and could be further enhanced by providing more details on the expected short and medium-term spending profile and variances against budget.

68. The social security directorate’s finance hub provides financial management for both the programme and wider directorate. It is currently developing a five-year financial plan to refine the implementation and operational costs which are contained within the Financial Memorandum. Costs will be further refined as decisions are made about how services will be delivered.
The IT infrastructure critical to delivering social security payments is complex

69. The IT infrastructure needed to process and deliver social security payments is complex involving a number of organisations and different IT systems. To pay benefit claimants, the Scottish Government needs to create an IT infrastructure (Exhibit 8, page 29) that can:

- accept applications from new claimants eligible to receive Scottish social security benefits
- securely access information on existing social security claimants and ensure safe and secure transition to the Scottish version of the benefit
- process applications, assess eligibility and verify a claimant’s identity
- calculate, reassess and make payments
- securely exchange information with service delivery partners
- notify the claimant of any relevant information
- provide financial, management and audit information and reports.

70. Delivering this will require different IT systems (or components) to share data and information securely with each other to process and pay benefits (Exhibit 8). Each component will form part of an overall social security IT platform. A number of different systems owned by different organisations, such as the DWP, HMRC, NHS and local authorities, currently deliver social security benefits across the UK. The Scottish Government has undertaken a number of exercises, known as discoveries, to understand:

- how the current IT systems operate
- the end-to-end process of making certain types of social security payments
- how users of the system will need and expect it to work (user stories).

71. Exhibit 8 (page 29) provides a high-level summary of the main components of the overall social security IT platform and how this will operate. The Scottish Government is assessing its options for each component to decide what it could reuse, buy or build. It is considering interim and long-term solutions as part of this. It is assessing what components are common to other public sector organisations in Scotland and the rest of the UK. It can then consider whether to reuse or develop common components, either with other Scottish or UK bodies or to be used by them. This includes the identity verification and payment components.

72. The main component of the overall social security platform is the case management system (CMS). This will manage the flow of claimant applications and assess them against predetermined rules before payments are calculated. The CMS will have to interact with a variety of other components for the end-to-end process.
Exhibit 8
High-level summary of the main components of the social security IT platform
This is a high-level summary and does not show all the required components with some grouped together into broader categories.

System being developed initially for the wave 1 benefits (FEA and BSG)
– IBM and Scottish Government

Using and developing existing DWP system up to five years
– DWP and Scottish Government

Short-term solution identified. Long-term solution to be identified and options assessed

Note: 1. Scottish Government accounting and payment system, known as SEAS, will receive daily accounting information from payments platform and will also be used to pay Carer’s Allowance Supplement.
Source: Audit Scotland
Exhibit 8 (continued)
High-level summary of social security IT processes

Application
- Claimant completes application form or contacts agency
- Claimant identification and details checked against documents and information held on existing systems
- Claimant notification

Processing
- Case Management System: Customer details and workflow management
  - Assessment of application against benefit rules
  - Cross checking with information on other systems
  - Calculation of benefit payment
  - Payment controls
- Management and audit reports created
  - Checks on payments for fraud or error
  - Processing of any claimant appeals
  - Processing and collection of any debts owed from claimants
  - Processing/administering appeals

Payment
- Payment sent to bank to pay claimant

System being developed initially for the wave 1 benefits (FEA and BSG)
- IBM and Scottish Government
Using and developing existing DWP system
- DWP and Scottish Government
Short-term solution identified. Long-term solution to be identified and options assessed

Source: Audit Scotland
73. The Scottish Government identified it would need to buy or build a CMS. IBM was awarded the two-year contract worth £8.3 million in November 2017 to deliver the first part of the CMS. It is being developed incrementally. This means the basic functionality required to deliver the first wave of benefits will be developed first. Additional functionality to deliver the more complex post wave one benefits will then be added to this through further contracts.

74. Only two suppliers submitted final bids for this contract. Feedback from the suppliers indicated not enough time had been given to prepare a final bid. This was despite the tender period being extended by one week on the recommendation of an Office of the Chief Information Officer (OCIO) review. The Scottish Government should learn from this for future procurement exercises. This is particularly important as it aims to have a number of suppliers delivering the different components of the IT system rather than a single supplier approach. Allowing more time for overall procurement processes and bids to be submitted could increase competition and the number of suppliers to choose from.

A key risk to delivering the social security platform successfully is the number of interdependencies with other systems

75. Exhibit 8 (page 29) demonstrates the complexity of the overall IT platform and some of the required interactions between different components. Many of these are owned by other organisations or a long-term solution is yet to be agreed. This is a critical area that will determine the successful delivery of the overall social security programme. The Scottish Government is actively managing a number of risks which are regularly reviewed and monitored through its programme risk register. Exhibit 9 (page 32) sets out what we consider are the most significant risks.

76. Two of the main risks to the programme relate to interdependencies with other organisations and systems. For example, the new CMS needs to be able to communicate and exchange information with existing and future systems. The Scottish Government is dependent on the DWP to modify existing systems to ensure they are compatible with what the Scottish Government develops. This could mean the Scottish Government is unable to deliver the required end-to-end processes even if it has completed all its components on time. There is a risk that Scottish Government requirements are not given enough attention due to the DWP’s other priorities. This will need to be carefully managed by the Scottish Government.

Plans for all the IT components are being progressed and will need to reflect all key activities

77. The basic product requirements (minimum viable product) have been agreed for the components needed to deliver wave one benefits. This will involve some components being delivered by existing systems in the short-term (Exhibit 8). The Scottish Government has still to decide on whether to use existing systems, buy, or build for a number of components, such as identity verification, in the long term. It is currently integrating project plans with those for the technical components to highlight all the required key decisions points. Contingency options still need to be identified. Understanding when key decision points are and what contingency options are available will be critical to the successful delivery of the programme.
### Exhibit 9
Key risks to the delivery of the social security IT platform

<table>
<thead>
<tr>
<th>Risk</th>
<th>Potential impact</th>
<th>How the Scottish Government is managing this risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of interdependencies with other projects and IT components will be challenging to manage.</td>
<td>Any delays with these could delay the launch of the wave one benefits, and subsequent benefits.</td>
<td>It holds regular meetings with delivery partners and delivery plans are shared.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interdependencies are being monitored and identified on programme plans.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dependency management strategy in place.</td>
</tr>
<tr>
<td>The new CMS may not be compatible with existing and future IT components.</td>
<td>Component parts may not be able to exchange information meaning the end-to-end process may not work without manual intervention.</td>
<td>Technical specialists and a data architect recruited to oversee the development of each component and ensure compatibility.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The new CMS is based on an existing multi-benefit system that delivers complex benefits in other countries.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Statement of requirements agreed and contract management in place.</td>
</tr>
<tr>
<td>The initial design of the CMS being developed by IBM may make it difficult for other suppliers to further develop it to deliver the more complex post wave one benefits.</td>
<td>The CMS may only be able to process wave one benefits. The Scottish Government may need another solution for post wave one benefits and this may delay its launch.</td>
<td>Technical specialists and a data architect being recruited to oversee the development of each component and ensure compatibility.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The new CMS is based on an existing multi-benefit system that delivers complex benefits in other countries.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Statement of requirements agreed and contract management in place.</td>
</tr>
<tr>
<td>Key decisions are still to be made about how to deliver some components of the system.</td>
<td>Wave one benefits need all components to be in place and working. If decisions are not made soon it may be difficult to have all component parts in place to deliver wave one within timescales.</td>
<td>Option appraisals will be developed for each component.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Technical specialists are being recruited to oversee the development of each component.</td>
</tr>
<tr>
<td>The Scottish Government is putting interim arrangements in place to deliver some components. Long-term solutions will need to be designed and delivered in parallel to this.</td>
<td>There are more elements to manage at the same time. Interim arrangements will need to operate in parallel with planning, design and implementation of the long-term solution. This may put a strain on resources.</td>
<td>Detailed planning for technical components being finalised. This will set out timeframes and dependencies.</td>
</tr>
</tbody>
</table>
### Exhibit 9 (continued)

<table>
<thead>
<tr>
<th>Risk</th>
<th>Potential impact</th>
<th>How the Scottish Government is managing this risk</th>
</tr>
</thead>
</table>
| An overall contingency plan is not in place for delivering all components of the IT platform. | If there are delays or issues with any parts of the system being developed there may be no other options available to deliver the benefits unless a contingency is in place. Delivery may be delayed. |  ● Interim components have been identified while longer-term solutions are identified.  
  ● The Scottish Government needs to identify contingency options for interim and long-term solutions. |
| An Integrated Assurance and Approval Plan for the overall programme is not in place. | There may not be enough time built into plans to allow for the required independent assurance reviews and procurement processes, and for recommendations to be acted upon. This could delay parts of the programme or mean fewer suppliers bid for contracts. |  ● Integrated Assurance and Approval Plans at project and programme level are in development. |
| Staff with specialist skills may not be in place in time because these skills are in high demand and short supply. | This could delay key components of the IT system or mean it is poorly designed. |  ● Streamlined the recruitment process to speed up recruitment and identifying critical posts for fast-tracking through the process.  
  ● Using interim management frameworks and contractors.  
  ● Looking at opportunities to share skills for example with loans or secondments with other organisations such as DWP. |
| There may not be enough time for succession planning and transferring knowledge as the pace of the programme increases. | Knowledge of the system will be lost. The end user will not know how to process claims |  ● Shadowing in key posts.  
  ● Investing in training and knowledge sharing. |

Source: Audit Scotland
78. Options appraisals will be needed for each component, clearly setting out the benefits, risks and cost of each option. The programme team prepared appraisals for the interim payment and customer records components, which were then presented and discussed at governance boards. More information on the benefits, risks and how the programme would mitigate these risks could have been provided in these documents. This would help inform discussions and effective scrutiny.

79. An Independent Assurance and Approval (IAA) Strategy was approved by the programme delivery board in February 2018. IAA plans (IAAPs) are being developed at a project level and will feed into an overarching programme plan. Independent assurance reviews need to be well organised in advance to ensure the required people with the right skills are in place. The IAAP for the low income benefits project was being finalised during February 2018. This project had already started at this point and timescales are tight.

80. Getting the required people with the right skills in place to deliver the IT components will be critical. Some of the skills needed to deliver the overall programme and develop the IT components are in high demand. Specialist roles such as technical architects and software developers are being filled in the short term using contractors. This is necessary to progress the programme. We previously reported on the importance of allowing sufficient time for succession planning and knowledge transfer. This will be an important area for the programme to focus on in 2018 to ensure knowledge of the system is passed on from the people developing it to permanent operational staff.

81. The CMS will have to be designed to cope with and use different types of customer data (data models). This needs to be designed into the structure of the software from the start. The Scottish Government recruited a data architect in February 2018 to help with this process. The architecture and data model design required for post wave one benefits will be significantly different from that required for wave one. The system that IBM is supplying and developing is based on a system the DWP currently uses for complex disability claims. Ensuring data models are compatible will be critical to the successful delivery of all benefits.

Preparations are on track for establishing the agency

82. In March 2016, the Scottish Government announced plans to create a new social security agency for Scotland. Following a detailed options appraisal, the Scottish Government confirmed, in April 2017, the agency will have a centralised function supported by local pre-claims advice and support services located with existing public sector bodies or third sector services, such as voluntary organisations. In September 2017, the First Minister announced that the agency headquarters will be in Dundee with another administrative site in Glasgow. The agency will be launched to deliver the Carer’s Allowance Supplement in summer 2018.

83. Once fully operational, the agency will oversee ten out of the 11 devolved benefits. Councils will continue to deliver Discretionary Housing Payments. The Scottish Government intends to set up the agency so it can deliver any additional benefits that may be created or devolved in the future. It estimates social security payments will total £3.3 billion each year by 2021/22 (Exhibit 10, page 35). This includes estimates for commitments Scottish ministers made to enhance existing benefits, such as the Carer’s Allowance Supplement.
### Exhibit 10
Scottish Government estimated costs of devolved benefits including enhancements

<table>
<thead>
<tr>
<th></th>
<th>2017/18 £m</th>
<th>2018/19 £m</th>
<th>2019/20 £m</th>
<th>2020/21 £m</th>
<th>2021/22 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast of existing benefits being devolved(^1) (block grant adjustment)</td>
<td>2,870</td>
<td>2,966</td>
<td>3,080</td>
<td>3,171</td>
<td>3,275</td>
</tr>
<tr>
<td>Estimates of enhancements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to Carer's Allowance</td>
<td>n/a</td>
<td>37</td>
<td>32</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>to Best Start Grant</td>
<td>n/a</td>
<td>17(^2)</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>to Funeral Expenses Assistance</td>
<td>n/a</td>
<td>n/a</td>
<td>&lt;3(^3)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total cost of benefits</strong></td>
<td><strong>2,870</strong></td>
<td><strong>3,020</strong></td>
<td><strong>3,132</strong></td>
<td><strong>3,224</strong></td>
<td><strong>3,329</strong></td>
</tr>
</tbody>
</table>

Notes:
1. Assumes no changes to eligibility and rates by UK Government. For the Scottish Parliament commitments to enhancing the Carer’s Allowance increase, the same caseload volumes have been used as those used for modelling Carer’s Allowance. For the Best Start Grant enhancements, birth rates have been used for modelling purposes.
2. Launch dates are yet to be confirmed and actual expenditure on Best Start Grant will depend on when the benefit starts.
3. Funeral expense assistance enhancement expenditure for 2019/20 will be confirmed by Scottish Government once transitional arrangements are finalised with DWP.

Source: Social Security (Scotland) Bill Policy Paper, Funeral Expense Assistance (FEA) and Illustrative Regulations and Policy Narrative, Scottish Government, December 2017

84. The block grant from the UK Government will be adjusted for each of the devolved benefits by an amount equal to the UK Government’s spending on the benefits in Scotland in the year immediately prior to devolution (with the exception of the Cold Weather Payment which is more volatile). An indexation mechanism will be used to reflect changes to the level of social security spend in the rest of the UK in subsequent years. Any top-ups to existing benefits or new benefits that the Scottish Government introduces will have to be funded from its own budget.

85. Once the agency is fully operational, the Scottish Government expects annual running costs to be between £144 million and £156 million. These estimates are likely to change as some key decisions have still to be made, for example on assessment arrangements and local delivery models, which could impact heavily on costs. Costs could also change if benefit rollout schedules change. The agency will provide a locally based pre-claim advice and support service across Scotland. Similar models have proved to be costly for local authorities and others. The agency needs to establish what local service will be appropriate for customers and ensure that such a model is fully costed and incorporated into budgets.

86. The programme is working closely with Scottish Government analysts to model and understand the operational costs of different delivery models, such as staffing profiles and customer contact options.
Some core arrangements are still to be put in place for the launch of the agency

87. The Scottish Government set up a project board in June 2017 to oversee the development of the social security agency (Exhibit 6, page 23). It includes senior officers from across the Scottish Government and two non-executives. The board’s remit is to review, oversee, provide direction and make decisions to support the delivery of the agency.

88. Once the agency is established in its own right, it will need to review its governance structures and ensure clear and appropriate arrangements are in place. This includes ensuring effective budgeting, financial monitoring and reporting are in place to allow the agency’s expenditure to be effectively scrutinised. The agency will also need to ensure it has oversight of key decisions, such as the development of long-term IT solutions, which will impact on its operations and staff. These decisions will continue to be made at a programme level until the programme closes.

89. Interim arrangements are being put in place for the agency’s launch. The programme is currently working with the Scottish Government’s corporate property department to identify suitable temporary accommodation. It is also considering options for customer contact arrangements.

90. The agency’s management team is in place with a chief executive, supported by four heads of services, all currently working as part of the Scottish Government. The head of finance currently provides support to both the agency and the social security directorate. As the agency becomes established, arrangements will need to be established to ensure roles, responsibilities and accountabilities are clear between the agency and the programme.

91. In November 2017, the agency implementation division, within the social security directorate, had 44 staff. The division has high-level plans for the number and grade mix of staff it wants to have in place for delivering wave one benefits. It plans to recruit operational staff in phases as the roll-out of the benefits progresses. Recruitment to the agency will grow significantly as it takes on operational responsibilities for delivering the benefits. The agency plans to increase its staffing levels as follows:

- By May 2018, approximately 120 staff will have been recruited to the agency, including some from the Scottish Government’s social security programme.
- It will have approximately 250 staff by summer 2019 when all wave one benefits have been implemented.
- When the agency is fully operational, it will have at least 1,500 staff in its two central offices. In addition, 400 agency staff will be employed to deliver services locally.

92. About 15 per cent of staff in the social security programme are contractors or on secondment. Some of them may transfer from the programme to the agency. Plans are being developed to allow contractors’ knowledge to transfer to permanent staff, such as contractor and permanent staff working closely together on joint work. Further planning is needed in this area.
The programme is developing a series of target operating models for the agency. These will set out how the agency plans to operate and what services, functions and processes it will need to have in place. The series of models will reflect the phased implementation of the devolved benefits and the growing volume and complexity of work the agency will need to deliver.

There has been good ongoing engagement with benefit claimants and other stakeholders

94. The Scottish Government has committed to creating opportunities for people across the country to get involved in the design and operation of the new social security system. A communication and engagement strategy is being developed to cover key priorities and activities with, for example, user groups. The Scottish Government is also considering methods of engagement and key milestones for action and using a variety of metrics to measure and evaluate engagement.

95. Benefit user experience panels have been set up from 2,400 volunteer benefit recipients. Both large-scale surveys (1,000 people) and focus groups are being used to regularly consult with this large group of participants. The Scottish Government plans a future study to track people through the new system and report on the impact it has on them. It is also engaging with seldom-heard people and disabled people through work with various partners.

96. The Scottish Government announced that there will be a ‘strong local presence across Scotland’ of agency officers available to provide pre-claim advice and support. Scottish Government officials have engaged with local authorities, DWP and other public sector organisations in order to understand the particular needs of benefit recipients in each local authority area as well as the existing partnership arrangements in place. In December 2017, the Scottish Government agreed a delivery agreement with COSLA setting out the guiding principles to ensure social security services are delivered in a consistent way across Scotland.

Devolution of employability services began on 1 April 2017

97. Employability services help people find and stay in work. Services are wide ranging and are delivered by a variety of public sector organisations and providers in Scotland. The Scotland Act 2016 devolved additional employability services, previously delivered by the DWP, for supporting people with a disability, or long-term unemployed into work. The Scottish Government set up its employability programme to initially deliver transitional arrangements before providing a full programme of support for these groups.

98. Two new voluntary employability services, Work First and Work Able Scotland, replaced the DWP’s Work Choice and Work Programme services on 1 April 2017. Over the course of a transitional year they aim to help up to 4,800 people with a disability or long-term health condition into employment. The full employability service, Fair Start Scotland (FSS), is due to launch in April 2018.

99. Implementing the transitional services involved training DWP work coaches and establishing internal business processes and systems to manage referrals, and monitor progress. At 31 March 2017, £700,000 had been spent on implementation.
Providers are paid based on the number of people they help into long-term employment. The 2017/18 budget for transitional services is £13.8 million, and the Scottish Government’s estimated spending for the year is £12.1 million.

The Scottish Government has drawn on the experience gained from implementing the transitional employability services. This has informed preparations for Fair Start Scotland. For example:

- It highlighted the need for more detailed joint planning and earlier engagement between the Scottish Government and DWP.
- Effective joint governance arrangements established for the transitional services are being used for FSS.
- Processes to help the transfer of knowledge from DWP to Scottish Government IT staff have been established.

Fair Start Scotland aims to help over 38,000 people towards and into employment during the following three to five years. The service is voluntary and will offer both pre-work and in-work support to all participants. The service offers intensive support for those who require it, such as people who are long-term unemployed or have disabilities or health conditions.

Procurement and implementation processes for FSS are well advanced. In October 2017, contracts to the value of £96 million for delivering the service were announced by the Minister for Employability and Training. Contracts with providers will run for five years, with service delivery arranged in clusters of Scottish local authority areas across nine regions.

Programme spend to 31 March 2018 is estimated to be £6.6 million, this includes spending on staff training, procurement, and external support including marketing and IT costs. Overall, the programme to implement FSS is progressing to schedule against key project milestones. Contingency plans are in place and decision points clearly identified on programme plans. At the time of reporting, recruiting staff remained an ongoing priority.
Key messages

1. The initial devolved tax arrangements are now well established. By 31 March 2018, Revenue Scotland will have collected total estimated revenues of about £1.9 billion from Land and Buildings Transactions Tax and Scottish Landfill Tax. Air Departure Tax has been delayed until at least April 2019 while questions over European Commission state aid rules in relation to the Highlands and Islands exemption are resolved. A date for devolving the Aggregates Levy will be decided when legal questions about the UK tax have been resolved.

2. The Scottish rate of income tax was replaced by non-savings non-dividend income tax from April 2017. The National Audit Office (NAO) reported that the methodology for identifying Scottish taxpayers operated appropriately in 2016/17. Maintaining accurate address records remains HMRC’s biggest risk to ensuring tax is assessed and collected properly. The NAO also highlighted that proposals to vary income tax rates and bands may increase costs and create administrative challenges for HMRC as it works to implement these.

3. Arrangements for assigning VAT are being finalised. The UK and Scottish governments have agreed that 2019/20 will be the transitional year with no fiscal consequences on the Scottish budget. It is important the agreed methodology is widely understood before the Scottish Government takes full fiscal responsibility for assigned VAT from 2020/21.

4. The SFC delivered its first forecasts as part of the 2018/19 draft budget. Regulations will be made to allow it to forecast VAT revenues in Scotland for the 2019/20 budget. The Commission needs to establish longer-term staffing arrangements to maintain and build its capacity as its responsibilities widen.

5. The Crown Estate Scotland was established as an interim body on 1 April 2017. It is responsible for managing the Scottish Crown Estate assets with a value of £276 million. The Scottish Crown Estate Bill was introduced for Parliamentary scrutiny in January 2018. This will determine the long-term arrangements for the management of the Scottish Crown Estate assets.

6. The Scottish Government continues to manage its borrowing and reserve powers within the fiscal framework and is considering its longer term strategy. It plans to publish a number of reports in 2018.
that will provide the opportunity to clarify its overall approach to financial management. Work is under way to support agreed changes to the Scottish budget process and introduce consolidated accounts for the whole of the Scottish public sector. These financial changes will continue alongside other significant change programmes in other newly devolved areas, including the integration of the British Transport Police in Scotland with Police Scotland.

Initial tax arrangements are well established

105. The Scotland Act 2012 devolved two taxes to Scotland, LBTT and SLfT on 1 April 2015. Additional Dwelling Supplement (ADS) was introduced on 1 April 2016. These taxes are collected by Revenue Scotland and arrangements are well established.

106. As at 31 March 2017, £1,205 million had been collected in devolved taxes, with a further £4,600 million estimated from the Scottish Rate of Income Tax (Exhibit 11, page 41). The SFC forecast Revenue Scotland will collect £694 million in devolved taxes in 2017/18.

The timeline for Air Departure Tax is unclear

107. The Scotland Act 2016 devolves Air Passenger Duty (APD) to Scotland. The Scottish Government brought forward legislation to replace APD with Air Departure Tax (ADT) which will apply to passengers flying from Scottish airports. The Air Departure Tax (Scotland) Act 2017 received Royal Assent on 25 July 2017. The Scottish Government’s planned launch date was 1 April 2018. Its policy is to reduce ADT by 50 per cent and abolish the tax when budgets allow. The aim of the policy is to encourage better connections with the rest of the world and increase economic growth.

108. Under current UK legislation flights departing from an airport with a population density of less than 12.5 people per square kilometre are exempt from APD. This is known as the Highlands and Islands exemption and the Scottish Government indicated its intention to keep this under its new policy. In October 2017, the Cabinet Secretary for Finance and Constitution informed the Scottish Parliament that the exemption had to be notified to and approved by the European Commission. This was to comply with European Union (EU) state aid regulations. On 22 November 2017, Scottish and UK ministers agreed to delay introducing ADT until the issue was resolved between governments.

109. Revenue Scotland has made good progress in preparing to introduce ADT. The ADT Programme Board oversaw this work and has now formally closed the programme pending testing of the IT system to ensure its readiness for the collection of ADT once it is introduced. ADT will be administered through a new module of Revenue Scotland’s online tax payment system. As at 31 March 2017 Revenue Scotland had spent £150,000 on this project with forecast spend in 2017/18 estimated to be £602,000.

There is still no launch date for Aggregates Levy

110. The Scotland Act 2016 also devolves Aggregates Levy, a tax on importing or extracting sand, gravel or rock from the ground or sea. The Scottish Government estimates £59 million will be collected in Aggregates Levy when it is devolved. As set out in the fiscal framework, no date for the tax devolution will be decided.
on until ongoing legal issues in relation to the UK tax are resolved. Revenue Scotland is expected to be responsible for implementing the Aggregates Levy once it has been devolved.

**Arrangements for shared taxes and assigned taxes are being finalised**

**Scottish rate of income tax**

111. The Scottish rate of income tax (SRIT) was introduced on 6 April 2016. HMRC is responsible for implementing, collecting and administering the SRIT on the Scottish Government’s behalf. This includes identifying taxpayers to whom the SRIT applies. Actual revenues from income tax are not known until about 15 months after the tax year ends, when self-assessment tax is confirmed. HMRC’s 2016/17 accounts show £4.6 billion as the estimated revenues for the 2016/17 tax year (Exhibit 11). The final revenue will be confirmed in HMRC’s 2017/18 accounts published in July 2018.

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**Exhibit 11**

**Tax revenues collected and forecast**

<table>
<thead>
<tr>
<th>Tax</th>
<th>Description</th>
<th>2015/16 collected £ million</th>
<th>2016/17 collected £ million</th>
<th>2017/18 forecast £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>LBTT</td>
<td>Paid on residential and non-residential land and property purchases</td>
<td>425</td>
<td>391</td>
<td>464</td>
</tr>
<tr>
<td>LBTT Additional Dwelling Supplement</td>
<td>Paid on purchase of additional properties of more than £40,000¹</td>
<td>n/a</td>
<td>93</td>
<td>93</td>
</tr>
<tr>
<td>SLfT</td>
<td>Paid on waste going to landfill</td>
<td>147</td>
<td>149</td>
<td>137</td>
</tr>
<tr>
<td>Scottish income tax (SRIT and then NSND² from 2017/18)</td>
<td>Scottish Rate of Income Tax (SRIT) – Main UK rates of income tax are reduced by ten pence for each tax band for Scottish taxpayers. This was replaced by NSND Tax² in April 2017</td>
<td>n/a</td>
<td>4,600 (estimate)</td>
<td>11,857</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>572</td>
<td>5,233</td>
<td>12,551</td>
</tr>
</tbody>
</table>

Notes:
1. Primarily paid on residential property, including buy-to-let and second homes.
2. Under the Scotland Act 2016, the Scottish Parliament can set the rates and band thresholds for all non-savings non-dividend (NSND) income tax paid by Scottish Taxpayers.

Source: Audit Scotland; *Scotland’s Economic and Fiscal forecasts*, Scottish Fiscal Commission, December 2017
112. The NAO found HMRC’s approach for estimating revenues was reasonable and its methodology for identifying Scottish taxpayers as operating appropriately in 2016/17. Maintaining accurate address records remains HMRC’s biggest risk to ensuring tax is assessed and collected properly.

113. The Scottish Government is responsible for meeting HMRC’s costs in setting up and implementing the SRIT. As at 31 March 2017, the Scottish Government had paid HMRC £17.2 million for costs incurred implementing SRIT, of which £6.1 million was in 2016/17.

Non-savings non-dividend income tax
114. The Scotland Act 2016 extends Scotland’s income tax powers by allowing the Scottish Parliament to set the rates and band thresholds for all non-savings non-dividend (NSND) income tax paid by Scottish taxpayers. The Scottish Government’s 2018/19 budget bill Stage 1 set out the proposed tax rates including two additional tax bands for incomes of £43,430 and below.¹⁶ The SFC forecast revenues of £12.2 billion.¹⁷

115. HMRC may have administrative challenges in implementing proposed changes to income tax rates and bands before the start of the 2018/19 tax year. HMRC has to change its systems to add in the proposed additional bands and rates. As set out in the NAO report, HMRC estimates running costs would be between £5.5 million and £6 million if Scottish rates were different to UK rates or between £2 million and £2.5 million if rates matched the UK.

116. The Scottish Government and HMRC agreed a Memorandum of Understanding in December 2016 and a Service Level Agreement (SLA) in November 2017. The SLA sets out the information the Scottish Government needs to forecast and make policy decisions. It also sets out performance measures to monitor how HMRC is administering the Scottish income tax. A single point of contact within the Scottish Government and HMRC means both can raise issues quickly; it also helps to deliver on the performance measures. The Scottish Government meets the costs of these posts.

117. The UK and Scottish governments have not yet agreed the process for reconciling actual Scottish income tax revenues to forecasts and the block grant adjustment. This needs to be finalised in advance of the first reconciliation in summer 2019. Any difference between the actual revenues collected and forecasts would be adjusted in the 2020/21 budget.

The methodology for assigning VAT is being finalised
118. About half of the Scottish budget will be funded by revenues raised in Scotland once VAT revenues are assigned. HMRC will continue to collect VAT across the UK. Identifying how much VAT has been collected in Scotland is complex. A calculation will be needed to apportion some of the total UK tax collected to Scotland. Scottish and UK ministers have still to agree how to calculate this.

119. The fiscal framework set out that assigning VAT will be implemented in 2019/20. The UK and Scottish governments have agreed this will be a transitional year with no impact on the Scottish Government’s budget if actual revenues differ from forecasts. The full fiscal consequences would be felt from 2020/21.
120. A joint working group of officials from the Scottish Government, HMRC and HMT is developing a methodology for assigning VAT revenues. Once agreed this will be used for calculating the final outturn. The methodology will be quality assured and tested before being agreed. The Scottish and UK governments plan to finalise and agree the methodology and the reconciliation arrangements by summer 2018. Arrangements need to be in place to prepare the 2019/20 draft budget due to be published in December 2018.

**The Scottish Fiscal Commission delivered its first fiscal forecasts as part of 2018/19 budget process**

121. Between 2014 and March 2017, the SFC operated on a non-statutory basis with its role being to independently assess the Scottish Government’s forecasts of devolved tax revenues. It reported on the Scottish Government’s forecasts for its draft budgets from 2015/16 to 2017/18.

122. Since 1 April 2017, the SFC has operated as a statutory body responsible for providing independent forecasts. The Scottish Government uses these to prepare its draft budget for the Scottish Parliament to approve. The SFC’s responsibilities include:

- preparing five-year forecasts of devolved tax revenues, non-domestic rates and Scottish income tax
- preparing five-year forecasts of social security spending
- preparing forecasts of Scotland’s onshore gross domestic product (GDP)
- assessing the reasonableness of Scottish ministers’ borrowing projections.

123. The SFC currently comprises three Commissioners supported by about 20 staff. As part of its transitional arrangement the SFC filled a number of senior management and other professional positions by using secondments. The SFC now needs to establish longer-term staffing arrangements to support ongoing leadership and decision-making. Governance structures are in place and operating, and it will publish its first annual report and accounts in summer 2018.

124. In December 2017, the SFC published its first forecasts for the 2018/19 draft budget. The SFC provided five-year forecasts for the Scottish economy, tax receipts, and social security spending. It assessed the Scottish Government’s borrowing projections as reasonable.

125. Currently the legislation does not specify forecasting VAT as one of the SFC’s responsibilities. VAT forecasts will be required for the 2019/20 budget in December 2018. The Scottish Government is working with the SFC for amending Regulations to be in place in summer 2018.

126. The SFC’s role as an independent fiscal institution is becoming increasingly important. As new powers are devolved, such as VAT, it will be responsible for forecasting about 50 per cent of the Scottish Government’s budget and social security spending.
Crown Estate Scotland became operational on 1 April 2017

127. The Crown Estate is managed by the Crown Estate Commissioners. The Scotland Act 2016 devolved the management of wholly owned Crown Estate assets in Scotland to Scottish ministers. These assets include most of the seabed, 590 square kilometres of foreshore (just under half of Scotland’s total), rural land, commercial property and rights to wild salmon fishing and naturally occurring gold and silver. They have a total asset value of £276 million. The net revenues raised from managing Crown Estate assets in Scotland go directly into the Scottish budget. Net revenues in 2017/18 are estimated to be £5.9 million.18

128. A joint Scottish Government-Crown Estate transition team was formed to set up the required IT systems, processes and staff required to manage the estate in Scotland. Crown Estate Scotland began operating on 1 April 2017. The organisation reported that the transition was smooth with appropriate systems and processes in place on time.19 A Memorandum of Understanding (MoU) between the Crown Estate and Crown Estate Scotland was agreed in April 2017. No functions have been shared between the two organisations since 1 April 2017. The Crown Estate Commissioners met the £2.4 million cost of the transfer. The majority of this was to develop the required IT systems.

129. A Scottish Government consultation on the long-term arrangements closed in March 2017. The results were used to help draft the Scottish Crown Estate Bill introduced to Parliament in January 2018. The Bill aims to establish a long-term framework for the management of Crown Estate assets to ensure Scotland’s local communities, authorities and industry benefit from them.

Overall principles and policies for borrowing and use of reserves have not yet been established

130. We reported in March 2017 that the Scottish Government was yet to finalise policies and principles for managing its borrowing and reserve powers.20 Finalising the internal policies and principles within which it will manage its finances is critical as these powers are now available. The Scottish Government is managing these powers within the rules set out in the framework and is considering its longer-term strategy.

131. In December 2017, UK and Scottish ministers agreed the arrangements for revenue borrowing in the event of forecast errors, or a Scotland-specific economic shock. This sets out the conditions under which the Scottish Government can draw down money from the National Loans Fund. The pay-back period for any loans will be three to five years. The Scottish Government is finalising a MoU with HMT on this basis. This MoU along with one for capital borrowing is expected to be agreed by 31 March 2018.

132. The Scottish Government will publish its medium-term financial strategy in summer 2018 in response to recommendations in the Budget Process Review Group’s final report.21 It will also publish its first Fiscal Framework Outturn Report by September 2018. This will set out how much it has borrowed against the limits and how much has been paid into and out of the Scotland Reserve. The Scottish Government also aims to produce a consolidated account for the whole of the public sector in Scotland in 2018, including local government borrowing and public sector pension liabilities. These are significant developments for the Scottish Government to implement. Delivering on these commitments will improve financial management and help Parliamentary scrutiny of decisions.
Substantial work remains to implement the remaining Scotland Acts powers

133. This report has focused on the main fiscal and spending powers but the powers are much wider, for example, the integration of the British Transport Police in Scotland with Police Scotland. We will continue to monitor the Scottish Government’s progress in implementing the powers and report to the Parliament as appropriate.

2. Figure is based on 2017/18 prices.


10. Ibid.


12. With the exception of the Carer’s Allowance Supplement for which details are set out in the Bill. This was to allow for the supplement to be brought into force quicker than would be possible through secondary legislation.


15. Discretionary Housing Payments have been fully devolved to the Scottish Government since April 2017.


Appendix
Audit methodology

We reviewed and used a range of information during our audit, including the following:

- Papers and official reports of the Scottish Parliament Finance and Constitution Committee and Social Security Committee
- The fiscal framework and accompanying technical annex
- Scottish Government draft budget documents
- Scottish Fiscal Commission economic forecasts
- Papers and minutes from a range of Scottish Government boards and committees
- Papers and minutes from the Scottish Government’s Social Security Programme Board and programme management documentation
- Minutes of the Joint Ministerial Working Group on Welfare
- Papers and minutes from the Scottish Government’s Employability Programme Board and programme management documentation
- Papers, minutes and management documentation from the Scottish Fiscal Commission and Revenue Scotland

We spoke to representatives from:

- Scottish Government
- Revenue Scotland
- Scottish Fiscal Commission
- Crown Estate Scotland.