OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 14 December 2016

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

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FINANCE AND CONSTITUTION COMMITTEE
16th Meeting 2016, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

*Neil Bibby (West Scotland) (Lab)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Ash Denham (Edinburgh Eastern) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Patrick Harvie (Glasgow) (Green)
*James Kelly (Glasgow) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Ivan McKee (Glasgow Provan) (SNP)
*Maree Todd (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Linda Fabiani (East Kilbride) (SNP)
Jim Harra (Her Majesty's Revenue and Customs)
Sarah Walker (Her Majesty's Revenue and Customs)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 14 December 2016

[The Convener opened the meeting at 11:01]

Decision on Taking Business in Private

The Convener (Bruce Crawford): Good morning and welcome to the 16th meeting in session 5 of the Finance and Constitution Committee. I welcome Linda Fabiani to the committee. She is here as an observer, but is entitled to ask questions when she is given the opportunity to do so. I give the usual reminder about mobile phones.

Agenda item 1 is a decision on whether to take item 3 in private. Do members agree to do so?

Members *indicated agreement.*

Draft Budget 2017-18

11:01

The Convener: Agenda item 2 is evidence from Her Majesty's Revenue and Customs as part of our scrutiny of the forthcoming budget. As members know, the draft budget will be published on Thursday. Today's session will also form part of our on-going scrutiny of the Scotland Act 2016. Members have received paper copies of material from HMRC, as well as the memorandum of understanding and a paper from the Scottish Parliament information centre that provides some additional information.

We are joined this morning by Jim Harra, the director general customer strategy and tax design, and Sarah Walker, the deputy director devolution, from HMRC. I welcome you both to the evidence session. Would Jim Harra like to make an opening statement?

Jim Harra (Her Majesty's Revenue and Customs): I have some brief comments to make.

The Convener: Please feel free to do so.

Jim Harra: This is my first appearance before the Finance and Constitution Committee as HMRC's accounting officer for Scottish income tax. I took over the role earlier this year. I am accountable for the implementation and operation of the Scottish rate of income tax and the additional income tax powers that are given to the Scottish Government and Parliament under the Scotland Act 2016. I welcome the opportunity to update the committee on our progress with implementing all that. I hope that we can reassure you that where we are spending Scottish Government money we are doing so wisely, efficiently and effectively.

The department recognises the importance of the Scottish rate of income tax and the further powers to the Scottish Government and the Scottish Parliament, and we take their effective delivery and on-going administration very seriously. We are treading new territory here. It has been a long time since there have been variations in income tax rates or thresholds in the nations of the United Kingdom. Identifying Scottish taxpayers is also new for us, and there is no benchmark against which we can assess ourselves.

We have been working closely and effectively with the Scottish Government. Last month I met my counterpart, Alyson Stafford, to give her an opportunity to hear about our progress and to challenge and question what we are doing on behalf of the Scottish Government. I hope that

Sarah Walker and I can do the same for you today.

On implementing the information technology to administer the income tax, we have already implemented everything that we need for the Scottish rate of income tax, as well as for pay as you earn on the new income tax. There are still some things that we have to do. In particular, self-assessment for the new powers will come in later because people will not be making their self-assessment returns until some time down the line. There are still information technology changes to make for that and there are also IT changes to make in order for us to account for Scottish income tax through all accounting systems.

Finally, we are still working on relief at source for pension schemes and ensuring that Scottish taxpayers get the right rate of relief when they contribute to those schemes, which is quite a significant challenge.

The Convener: You said that it has been a long time since we have been involved in a project like this. It is probably longer than that, because this is the first time in Scottish history that we have ever set an income tax in Scotland.

Jim Harra: I am not an expert so I do not know whether, centuries ago, there was an income tax.

The Convener: As far as I am aware, there was not an income tax 300 years ago, although there were property taxes. The work that you are involved in is historic stuff.

On the remaining challenges to do with self-assessment and the other areas that you outlined about pensions and so on, can you give us a more in-depth description? What are you doing to make the organisation fit to face those challenges?

Jim Harra: Sarah Walker is closer to the details, so I will let her step in in a moment.

We have three projects: a project for the Scottish rate of income tax, another for the additional income tax powers and another for the relief-at-source schemes to ensure that pension schemes customers get the right relief. The projects are all on track to deliver in good time and, in the meantime, we have interim arrangements in place for the relief-at-source schemes that we believe will work until we have a more efficient scheme.

We estimate that the costs of implementing the IT will be lower than we previously thought, which is positive. Perhaps Sarah Walker would like to add something.

Sarah Walker (Her Majesty's Revenue and Customs): Those are the main highlights. For self-assessment, we need to ensure that, when somebody gets their tax return, we can get them to tick a box or indicate in a positive way whether they lived in Scotland during the year in question and, therefore, are liable for tax at the Scottish rates.

For the pension schemes, the issue will arise only if the basic rate is different between Scotland and the rest of the United Kingdom, because relief at the basic rate is given automatically at source for pension contributions when people pay into a personal pension or a pension that is not run by their employer. In those cases, we are setting up a digital system to exchange information with the pension administrators to allow them to identify those contributors on their books who are Scottish taxpayers and to claim relief from us at the appropriate rate.

Jim Harra: This year we have introduced an entirely new digital account for all pay-as-you-earn taxpayers. It is called the personal tax account and there are currently more than 7 million users. From the outset, people have been able to see that they are a Scottish taxpayer, and the Scottish rate of income tax is visible in that new account.

The Convener: What progress are you making for those who are self-assessed? From your submission, I think that that is about 14 per cent of the tax base.

Jim Harra: The first self-assessment returns relating to this tax year will take some time to come in, so we have a longer period to put in place all the IT to ensure that the self-assessment system calculates the right rate of tax for those whom we have identified on our database as Scottish taxpayers. That will all flow through to our accounting systems. We can do that on a slightly longer timetable than was the case for pay as you earn, which is on track to deliver on time.

The Convener: I understand that. What is the overall cost to the Scottish Government of implementation and how is that cost broken down?

Sarah Walker: So far, the cost has been £12 million. That mostly consists of the IT changes that we have made and the communications activity that happened last year when we were setting up a list and a database of Scottish taxpayers. The overall estimate is between £25 million and £30 million for implementing the Scotland Act 2012 changes, which are the changes to the basic Scottish income tax rate and relief at source. That consists of roughly £10 million of non-IT expenditure, which includes communications, staff costs, data-cleansing activity and marketing expenditure. The estimate for IT is between £15 million and £20 million. That is partly for the IT changes that Jim Harra has already mentioned, plus the remaining relief-at-source system that still has to be implemented.

The Convener: The costs that were originally estimated were between £40 million and £45 million, so that is a considerable reduction.

Sarah Walker: That is right. The costs have come down significantly.

The Convener: Obviously, that is a good thing for Scottish taxpayers, as they are paying at the end of the day. Can you see other costs beginning to emerge that the Scottish Government might have to absorb?

Sarah Walker: There will be an on-going business-as-usual cost. That amount will depend on whether the tax rates in Scotland are the same as, or different from, the rates in the rest of the United Kingdom. If the rates are the same, as they are in the current year, the costs will be fairly low. There will be a cost for dealing with inquiries, complaints and communications about whether people have the correct tax code, and costs for compliance activity, which has not happened yet, as it happens after the end of the year. However, we are planning for compliance checking and assurance activity to ensure that we have correctly identified Scottish taxpayers.

I think that the estimated figure that we gave for that was between £1.5 million and £2 million a year, in a year in which the rates are not different. In a year in which the rates are different, things will clearly depend on the nature of the difference and how many people that affects. However, we expect significantly more inquiries, code changes and active compliance activity in a year in which there is a differential between the Scottish rate and the UK rates, and we have said that that cost would be around £5 million in a year.

Again, those are estimates. We are still working to refine the activity, and particularly what we would do in compliance. We will revise those figures once we know more.

The Convener: On the memorandum of understanding, it is interesting that, if there was a dispute over costs, there is quite a clear mechanism to deal with IT issues in particular, which would go to an independent source for resolution. What would happen on the administration side does not seem to be as clear. No independent process is mentioned for the administration costs if there were different views about what they were, and how that would be resolved is not mentioned. Is there something in the service level agreement that we have yet to see that covers that?

Sarah Walker: There could be circumstances in IT in which we would want to get in an external expert to say whether the solution that we proposed to implement was correct. We might well want an expert to look at that.

The non-IT costs are for things such as advertising, writing letters to people, and the compliance activity that is done. They are not really amenable to having an external expert come in to ask about.

Matters are determined first of all by discussion in our project and programme boards, on which the Scottish Government is represented. That is part of the process of deciding what to do. If there is a dispute, there is a process to escalate it. It can ultimately go to ministers to decide, although obviously we hope that that would never happen.

The Convener: In effect, it would end up at the JMC—the joint ministerial committee—if required, but that is unlikely to happen.

Sarah Walker: It would be the JEC—the joint exchequer committee.

The Convener: I am curious about whether any other jurisdictions or, indeed, the Treasury have a service level agreement with HMRC whereby the Treasury pays for any changes that are implemented in the budget process.

Jim Harra: The Treasury ultimately pays for everything that we do. We are one of the chancellor's departments, and we have an annual remit letter from the chancellor that sets out what he expects us to achieve in the coming year and the funding that he is giving the department to do that. Treasury officials monitor that on his behalf. We do not call that an MOU or a service level agreement; it is the remit letter. However, it is, in effect, my permanent secretary's performance agreement for the year that the chancellor has set him to achieve. That has the key priorities.

The Convener: And there are no other jurisdictions that you work on on behalf of the UK.

Jim Harra: We have memoranda of understanding and service level agreements with other Government departments for which we provide services or which provide services to us. For example, in relation to customs, activity at the border is carried out by the border force, although I am responsible for UK customs, so I have a memorandum of understanding and a service level agreement with border force, both for what it does for me and for the data and other support that I give it to enable it to do its job.

11:15

Sarah Walker: There is also the collection of student loan repayments, which we do on behalf of whichever department it is—I am sorry, but I do not remember. We have formal agreements for the activity that we do on behalf of another department to collect those payments.

The Convener: To get that overall picture.

Sarah Walker: Yes.

The Convener: Thank you. That has dealt with some of the cost issues. We now want to explore resource issues.

Maree Todd (Highlands and Islands) (SNP): HMRC is closing 18 offices in Scotland, with the loss of about 2,000 jobs. As you can imagine, that is causing a great deal of concern, including in Inverness in my constituency. I represent the Highlands and Islands, and Inverness is set to be one of the first offices to close. The majority of HMRC workers believe that the UK Government plans will negatively affect the staff and their ability to collect tax and enforce tax compliance. Added to that, your clients have not quite made the switch to digital that you hoped for. The number of calls to your helplines has remained the same, but the waiting times have got longer.

Mark Serwotka, the general secretary of the Public and Commercial Services union, has said:

> "HMRC collects the taxes that pay for all the public services we all rely on and the very fabric of our society depends on it being properly resourced and well run."

What can you tell us today that will restore our confidence in HMRC's ability to correctly collect the tax that we need to run the country?

Jim Harra: In last year's budget and spending review, the department was given investment of £2.1 billion. We are tasked with using that investment so that, at the end of this spending review period, we will have achieved £700 million a year of cost efficiencies in the department and brought in an additional £8 billion in revenues over and above what we were previously expected to bring in, as well as contributing to compliance cost reductions for businesses. There is investment to go with the change that we need to make, so it is not simply cuts.

In the case of customer services, you are right that a key part of our transformation programme is digital, which will replace more traditional forms of contact and processing in our offices. We would expect a large proportion of the £700 million of efficiency savings to come from the introduction of digital services. We are not behind in implementing those services. On the contrary, for the new personal tax account that I mentioned, which was introduced in January this year, we had a target to have 7 million users of that account by the end of March. In fact, we have already exceeded 7 million users, and the satisfaction ratings for it are very good. That account can currently enable a taxpayer to do about 60 per cent of the things that they want to do online, whereas previously they had to ring us or write to us to carry out a simple transaction. That helps us by making us more efficient, and it fits with the way that taxpayers want to run their lives.

The transformation programme is ambitious, and we have to take care that, as we make the changes, we make them in the way that we plan to and they have the benefits that we need, so that there is no reduction in customer service. For about the past 13 months, we have been handling 85 to 90 per cent of all the calls that we receive. Our average call waiting time is below five minutes, which is not where we want to be, although it is a lot better than it was a couple of years ago. We have a plan to reduce that to below three minutes. As we make our transformation, we need to take care to understand the service impacts and ensure that we are managing them effectively, but the aim of using the investment is that, at the end of the spending review period, we will have a modernised digital tax authority that is delivering better service and better revenues for Government, too.

Patrick Harvie (Glasgow) (Green): Good morning. For the purposes of transparency, I want to make clear to the committee that I am a member of the Public and Commercial Services Union parliamentary group. That is not a group of MSPs who are members of the PCS but a group of MSPs who regularly meet the PCS to discuss issues of importance to the union and its members.

The panel will be aware that the PCS has expressed serious concerns about the impact of the changes—not just about the scale of job losses but about sites moving from place to place and people being unable or unwilling to move to the new locations. That is not just potentially unfair to individuals; it could have a serious impact on HMRC's ability to retain the skills that it needs even to operate at business-as-usual levels. However, this is happening at a time when, as we have acknowledged, you are undertaking to develop extremely complex—and historic—new structures in order to administer tax differently in Scotland. How have you engaged with and responded to those concerns? Can we have any confidence that the changes are compatible with the extraordinary new challenge that is being taken on?

Jim Harra: First of all, I will set the challenge in context. The department is left with a legacy of how we did business in the past. We have a network of—sometimes—very small offices. I think that there are about 170 of them, which—

Patrick Harvie: I remember—I used to temp in one of them.

Jim Harra: That dates from a time when the local tax office served the local population. That is not how tax services in this country—or, indeed, most other countries—work now. The purpose of the transformation programme is to move to having 13 large regional centres around the country and a small number of specialist sites. There will be some transitional sites as well, because we recognise that we have to take time to make the transition, not only to ensure that we retain the skills that we need as we make the change but to help people with the impact of it. That is the strategic challenge.

You are quite right that there are impacts on our people as we do that. The vast majority of our people will be able to make the transition with us but, unfortunately, some will not. We definitely want to treat everyone fairly, no matter what their circumstances are. To date, for the whole of the programme, we have modelled what we think the impact is going to be on our people. As we get closer to implementing a change in any office, we move from that modelling to a one-to-one discussion with every individual who is affected, to make sure that we gather information about the impacts on them. For example, in Scotland, our modelling indicates that more than 90 per cent of our staff are within reasonable daily travelling times of our intended new regional centre sites.

A number of criteria are relevant to the selection of where we have regional centres. Our key aim is to have centres where we can develop and exploit our people's skills and give them good careers but also where we can recruit and retain people with really good new skills. Scotland came out well in that regard, so it is the only part of the country where we will have two regional centres; all other regions will have one. That reflects the calibre of the staff we believe we can recruit and retain here, as well as the quality of the infrastructure that we will be able to use.

If you look at our programme, you will see that it is phased in over time and, as we make the changes, we are retaining some large transitional sites for quite a long period. That is a recognition that we must not move too fast or lose skills that we need as we make the transition. For example, here in Scotland, our intention is to keep East Kilbride as a transitional site for about another nine years as we make the move to Glasgow and to Edinburgh.

Patrick Harvie: You have placed a lot of emphasis on retaining skilled and experienced staff. Can you tell us with any confidence whether, at the end of the change process, the cumulative amount of experience—in person years, for example—in Scotland will be the same or lower? If it will be lower, how much lower will it be?

Jim Harra: I think that we will experience change in that respect even if we do not make the expected transformation, because 48 per cent of our workforce is aged over 50. We would face a challenge in refreshing our workforce over this period anyway, even if we stayed in our existing locations.

We are active recruiters. For example, we bring in about 250 graduate entrant recruits on to tax programmes each year, which makes us one of the largest graduate employers. We do that in recognition of the fact that we have to refresh our workforce constantly.

We face a challenge over the next few years, regardless of what we do on our estate, in making sure that we maintain our skill levels and experience and that knowledge is passed on from people who are leaving the organisation to people who are joining it.

Patrick Harvie: I have one last point to make if there is time, convener. All of us are aware of the potential for a new wave of unemployment to come from sophisticated automation—the application of artificial intelligence and so on. Do you anticipate that happening within HMRC in the coming years and have you discussed that with your workforce representatives?

Jim Harra: I am not aware of any developments in AI, but technology is an issue. Digital technology that enables taxpayers to self-serve in the tax system where previously they had to contact a member of staff to intermediate between them and the tax system is definitely appearing. There is a parallel in online banking, where the banks now give customers access to the banking system as opposed to using a cashier to intermediate between customers and the system. The same is happening in tax. Technology is definitely having that effect.

We are also harnessing automated data analytics to help us with our risk assessment where previously we would have used manual methods. Technology makes us more efficient. Whether we put those efficiencies down as cost savings or whether we reinvest those efficiencies in seeking more revenues and closing the tax gap even more is something that we discuss with ministers all the time. We have quite a good track record of securing from ministers reinvestment of savings in each fiscal event.

Linda Fabiani (East Kilbride) (SNP): I have two very quick questions, to which I would like straightforward answers. Mr Harra, you talked about the lease for the site in East Kilbride, which I represent, being for another nine years. I presume that that is the lease for Queensway house. Does that lease, which is with a private company, have a break clause that you would consider using before the nine years is up, should you decide not to stay in East Kilbride, or is there a firm commitment to those nine years?

Jim Harra: You are right in saying that that lease is for Queensway house in East Kilbride. We currently have two buildings in East Kilbride: the Plaza tower and Queensway house. It is our intention to close the Plaza tower but to keep Queensway house open until 2025-26, with the staff from the Plaza tower moving into that building. However, that is dependent on our securing good terms from the landlord for that. It is our intention to do that, but I cannot tell you firmly that that will happen, because it depends on negotiation with the landlord on the terms of the lease.

Linda Fabiani: That means that there is a break clause that would allow you to leave earlier if you chose to do that.

Jim Harra: I am not an expert on the lease for that building, but I assume that there must be a break clause—otherwise, I am not sure what leverage we would have in negotiating terms with our landlord. I know that we are actively engaged in those negotiations, because it is our wish to keep that building open until 2025-26 as one of our longer-term transitional sites. However, I cannot firmly commit to that happening, because it is dependent on negotiations.

Linda Fabiani: Thank you. I will move on to my other quick question.

As we know, the rationalisation plans for HMRC have been on the table for many years—in fact, they existed not just prior to the election of the current Government but prior to the agreements that have come through the Scotland Act 2012 and the Scotland Act 2016. What additional conversations have taken place about devolution and the additional work and expertise that is required to set up the new Scottish rate of income tax and everything that goes with it? Did the plans change?

11:30

Jim Harra: The answer to that is that the plans iterate all the time. Our plan for regional centres is for a pan-UK structure for the department. However, the workforce plans for how many people we want in different locations and what jobs and skills we need in each location iterate and are adjusted all the time. There is a change control process in our location programme that enables any part of the department that needs to change its workforce plan to do that and our estates people then to evaluate how they can meet that requirement.

There will undoubtedly be changes such as legislative changes throughout the coming period that will require adjustment to what we do. I mentioned that we have a good track record of getting reinvestment. If we got additional resources during this period, we would again have to iterate the plans to accommodate that.

Linda Fabiani: Was the devolution team fully included in that further discussion, Ms Walker?

Sarah Walker: Yes. The Scottish income tax is being introduced as part of our existing PAYE system. It is not a big separate exercise and it will not require a lot of separate people to operate it. It is just another aspect of the PAYE and self-assessment income tax job that is being done across the country. The additional costs of doing that are being met by the Scottish Government, so there is not an issue of our squeezing the resources for the Scottish rate as a result of problems elsewhere, because they are kept separate.

Linda Fabiani: Thank you.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. I want to go back to the point that the convener touched on about the identification of Scottish taxpayers, which will become increasingly important, particularly if we get differential tax rates between Scotland and the rest of the UK. You say in your submission that there was an issue with notification letters. How confident are you now about the accuracy of your data on the identification of Scottish taxpayers?

Jim Harra: It is an on-going process and it will never end. We are proactive in making sure that we get better and better at identifying Scottish taxpayers. There was an issue with the initial scan, which meant that notification letters were not sent to a group of Scottish taxpayers. If we had not picked up and corrected that problem, that would have in due course fed through to their not getting the right tax. However, that has been resolved.

There is on-going work to refine the database. For example, we have identified about 50,000 people on our database who have incomplete addresses, although some aspect of that incomplete address data indicates that they may be Scottish taxpayers. We have an on-going piece of work to improve the address data, using third-party data. We are constantly and proactively refining that. Our initial estimate was that there are about 2.5 million to 2.6 million Scottish taxpayers, and it looks as if the outcome will be that there are about 2.6 million. That is in line with the original forecast, which gives me some assurance that we are getting to the bottom of the issue.

Murdo Fraser: In percentage terms, can you put a figure on how close to accuracy you are? Are you at 95 per cent or 99 per cent?

Jim Harra: As I mentioned, we do not have a benchmark of who these people are against which we can measure. We are within our original estimate of the number of taxpayers, but at the top end of that.

Sarah Walker: When we did the scan last year, we were confident that 98 per cent of the addresses on our database that appeared to be in Scotland could be corroborated from another source. That does not mean that we were 98 per cent accurate, because there could have been missing addresses. However, of the people whose addresses we had, we had separate evidence to show that 98 per cent of them were in Scotland. We then did some extra work to pick up addresses from other sources that suggested that there were people living in Scotland who were not on our books. We wrote letters to some of those people. The outcome of that made us believe that our records were probably more up to date than the other sources that we were looking at. As Jim Harra says, it is a constantly moving target. If there was a gold-standard list of people who live in Scotland, we would use that anyway, so we have nothing to judge the data against.

Murdo Fraser: I have one more question. Have people challenged their Scottish status or, indeed, their non-Scottish status? Is it too early in the process for challenges to emerge?

Sarah Walker: People are ringing up to ask questions. If they say that we have given them a code that indicates that they live in Scotland but they do not, we will change it. We do not keep a record of that, so long as they have some evidence to prove that their address is different. They will just say, "I moved six months ago," and we will update our records. We do not have challenges as such. When we get to self-assessment and the later compliance activity, that may emerge.

Jim Harra: I am aware of one person who has been in touch with us to express disappointment that we have not identified them as a Scottish taxpayer but, when we looked into it, we found that they do not qualify as a Scottish taxpayer. They may voluntarily make a contribution.

The Convener: I wish that we could set you a target to find us half a million more. That would help us all in the circumstances. Ash Denham has a supplementary question.

Ash Denham (Edinburgh Eastern) (SNP): Good morning. My question covers some of the same ground as Murdo Fraser covered. I would like us to talk a little bit more about the failure to identify some Scottish taxpayers, because that is clearly the most important part of the process. You have to know who Scottish taxpayers are in order to tax everybody appropriately. You said that there was an error in your parameters. Basically, people had a Scottish address and you failed to count them as Scottish taxpayers. If you missed out 420,000 taxpayers—which is not an insubstantial number, given that Scotland is a smaller part of the UK—how can Scottish taxpayers have confidence that you will maintain accuracy and that there will be transparency, so that the Scottish Government can have confidence that the data is accurate?

Jim Harra: You are absolutely right. The people concerned had addresses on our database that should have enabled us to identify them as Scottish taxpayers. It is very regrettable that an error in the scan parameters meant that they were not initially picked up. We have been completely transparent with the Scottish Government and with you about that problem. It is reassuring that, because of the communications work that we had done to raise awareness, we were quickly alerted to the fact that people who would have expected to receive a letter had not received one, so the communications campaign acted as a back-up to help us to get this right.

In the past, people's addresses have not been particularly relevant to their tax liability, so I guess that in the past we have applied data standards that were good enough for what we needed the data for. The error is probably a manifestation of that, as the addresses were held in a non-standard format and therefore the scan did not pick them up. We can show that we are already cleansing our address database in response to the fact that Scottish addresses, in particular, are now much more relevant to tax liability than they were in the past, and therefore the quality of our database will be better. It is about constantly revealing what we are doing to improve and constantly testing whether the people we would expect to get an "S" code, for example, are getting one. We have done testing against the Scottish Government's payroll and have identified that, in 100 per cent of cases in which we hold a Scottish address, there is an "S" code on its payroll. We are doing similar validation with a couple of other large employers.

Ash Denham: This clearly needs to be an on-going process, because some people will start work and others might leave Scotland to go and live and work elsewhere. What sort of resources have you committed to maintaining the accuracy of the database? If any issues were to arise—let us say that the Scottish Government identified people who should be paying the Scottish rate of income tax but were not—who would have final oversight over such a dispute?

Sarah Walker: On your second point about what would happen if there was a disagreement between us and the Scottish Government, there are rules in the legislation that determine whether someone is a Scottish taxpayer. It depends on where their main place of residence is for the majority of the year. It is unlikely that we would have a generic dispute with the Scottish Government about that, given that it is a fairly objective rule. There might be objections in individual cases, which would be dealt with in the normal way rather than needing to be resolved between us and the Scottish Government.

Your other question was about what resources we have for keeping the data up to date. Most of that activity will happen through our business-as-usual activities. We have on-going conversations with employers, and other activity with employers. We check on employers' payroll activities.

We will do more of the comparison scans that we did last year, comparing our database with external, third-party databases of people who live in Scotland to make sure that our database is up to date.

As Jim Harra said, we will use our personal tax accounts and our digital communications with people to make sure that they get the opportunity to update their addresses. We will take any opportunities that we have—not always through paid-for advertising but through other types of communication activity—to remind people that it is important to keep their address data up to date.

We recognise that this is an on-going process and it is part of the activity that we will be agreeing with the Scottish Government through the service level agreement.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): To continue with Ash Denham's point, an error in the scan parameters sounds like fancy language for a bug in the software to me. Is that accurate? How could you initially do a run of 2.5 million or so Scottish addresses that was 420,000 people short? How could you not notice initially that you were that amount of people short?

Jim Harra: The missed addresses were originally entered on our database in a non-standard way; they did not use the Post Office's postcode address field. Therefore, when we ran the scan, there was not so much a software error as an incomplete understanding of how Scottish addresses had originally been entered on the database.

When the scan was run on the assumption that addresses had all been entered in one format, it picked up all the addresses in that format but failed to pick up the addresses that had originally been entered in a different format. That goes back to the fact that, historically, we have had a certain level of concern about data quality and data standards in relation to address inputting. We now need to tighten that.

There was not so much a bug in the software as insufficient understanding of the different formats that could manifest in the database, all of which we needed to pick up. As I said, there was a backstop that identified the error, because the level of awareness that we had raised meant that people could see that some people who should have received something had not, and that was an alert.

Willie Coffey: About 400,000 people were affected. It is hard not to notice a number such as that. Who raised the alarm about the missing 420,000 people? Where did the alarm come from? The identification of Scottish taxpayers should surely have gone through some kind of data validation process at the outset so that you were pretty sure that you had issued letters to the right quantity of people. About 400,000 people is a substantial number to miss.

Jim Harra: Coincidentally, the volume of letters that went out, which was just over 2.4 million, looked like the level that we expected to go out, so it was not immediately identified that the number of letters was not sufficient. The issue was identified because of alerts from people such as tax professionals in Scotland, who said, "I am aware from my dealings with you that people should be receiving notification letters, but I have seen some people who have and some who have not."

Willie Coffey: If those people had not raised the alarm, would you still be none the wiser?

Jim Harra: There must be a risk that, if the numbers are very small, we will not be alerted in that way. All that we can do is keep refining the approach and keep proactively on top of it to get better at it.

The Convener: I know that Willie Coffey has questions on advice and support, but we will deal with those questions later, because Dean Lockhart wants to come in on identification issues.

11:45

Dean Lockhart (Mid Scotland and Fife) (Con): We have discussed the position of taxpayers who spend some time in the rest of the UK and some time in Scotland. I will explore the position of people who spend some time overseas and some time in Scotland. Will the residency test for those individuals be the same as the UK residency test, which considers the number-of-days count, ties to the country and accommodation, or will the test for international taxpayers who spend some time in Scotland be different?

Sarah Walker: First, we have to determine whether someone is a UK taxpayer, so all the international residency rules will apply in order to decide whether they are liable to tax in the UK at all. Once we have decided that they are a UK taxpayer, the same rule will apply as for other Scottish taxpayers, which concerns where the individual's main place of residence was for the majority of the year. If we are looking only at part of the year, the answer will depend on where they were for that period. If that was really impossible to determine, the question could come down to counting the days. If there was no obvious main place of residence because an individual was in the country only temporarily, we would revert to counting how many days they had spent in England, Scotland or Wales. We have tried to keep the number of cases that depend on that to a minimum, because it is a burden on people to calculate that, but there are cases where that needs to be done.

Dean Lockhart: So the first test that would be applied is the existing UK test for liability to tax, and then you would determine someone's main place of residence in the UK.

Sarah Walker: Yes.

Dean Lockhart: I will ask a slightly separate question. Where will the challenges arise in difficult areas? For example, a lot of people work in London, so if a taxpayer who works there has a property there but also in Edinburgh, where will the difficulties lie in determining where the main residence is? If there is differential tax between Scotland and the rest of the UK, how will you determine where the main residence is? Is that also a question of the number of days that are spent in the residence?

Sarah Walker: No. Determining which is the main place of residence will depend on a number of things, such as where the individual's family live, where they are registered with a doctor and where their kids go to school. A lot of factual matters determine the decision. However, for most people who have two residences, it is pretty clear which is their main home and which is their weekend place or where they go just for work. In some cases, that will not be clear. As I said, if it is genuinely not clear, we can look at counting days. However, we think that the vast majority of cases will be pretty obvious and easy for people to determine.

The Convener: I think that Ivan McKee's concern about data transfer issues links with this issue, so perhaps he can deal with that.

Ivan McKee (Glasgow Provan) (SNP): I will ask initially about the availability of information from HMRC to enable the Scottish Government to calculate what is happening. The Scottish Government will forecast tax receipts, but the outturn data for that will be a significant time away. It could be a year and a half after the end of the tax year before we know the full and final scores on that, which will create difficulties because of the complexity of the Scottish budgeting process.

From reading HMRC's submission, it seems to me that, in effect, information on pay-as-you-earn taxpayers should be made available every month to the Scottish Government to allow it to track where it is relative to the forecast. Is that correct?

Jim Harra: Yes. Pay-as-you-earn receipts represent 86 or 87 per cent of all receipts, with the balance from self-assessment. We will not know about self-assessment receipts until much further down the track, so we think that the pay-as-you-earn receipts are the most reliable data that we can give for forecasting purposes.

We have introduced new rules in recent years for the reporting and payment of PAYE by employers that have tightened up the accuracy of the data that we get from them in-year. Employers now have to send us a detailed return and payment for every pay period, which is usually weekly or monthly. We therefore have much greater confidence today than we would have had, say, five years ago about the accuracy of the in-year data. Broadly speaking, that is the data that the UK Government and the Office for Budget Responsibility have access to as well in-year, so we would intend to give that to the Scottish Government.

We expect the reconciliation after the end of the year to take about 15 months. That is because, first, we have to operate an end-of-year reconciliation on pay-as-you-earn taxpayers and, secondly, we have to wait for the self-assessment returns to come through.

Ivan McKee: Okay, but we will have a pretty good steer month by month on whether we are falling off a cliff or everything is holding up.

Jim Harra: Yes—over time, we will be able to build up more confidence in what the variability is, but we think that things should be relatively stable.

Ivan McKee: I will move on to the data side. In the past, our research people have tried to get from HMRC information on Scottish taxpayers that is broken down by band, so that we can understand how many there are, what the revenue is and so on, but there were taxpayer confidentiality issues that meant that a lot of the information could not be provided. Is that the case? Do you see confidentiality as a problem, or is there no reason why we should not be able to see the full set of data?

Jim Harra: Generally speaking, we cannot disclose information that could identify an individual. For some of the high-income bands, we might have to aggregate to a level that means that individuals cannot be identified. Apart from that, however, we should be able to provide such data.

Ivan McKee: So even at the top end, you should still be able to break down the data into groups of a few hundred or something like that—there is no danger of identifying an individual.

Jim Harra: Yes. At the very top end, it is just possible that we will have to aggregate more at a Scottish level than we do at a UK level, but that is simply to protect people's identities. Otherwise, we can provide the breakdowns.

Ivan McKee: At present, the bands for those breakdowns are quite narrow, are they not?

Jim Harra: Yes. The issue that you raised might concern the fact that, at the top end, we have had to aggregate some bands.

Ivan McKee: So there is no reason why the information should not be available now.

Jim Harra: No.

Ivan McKee: I will move on to VAT, which we have not yet touched on. How do you envisage the process for assignment of VAT? There is a mechanism in our Government expenditure and revenue Scotland data, but those numbers are rough, and we need to be a bit more accurate on where we need to be with VAT for the assignment.

Jim Harra: I will have a go at answering, but Sarah Walker can correct me. That is not something that HMRC will deal with as part of our administration of VAT. The Treasury will carry out the exercise on the basis of VAT receipts and the statistics that it has for consumption in the economy. We will not be administering a Scottish rate of VAT in the way that we are doing for income tax.

Sarah Walker: A calculation is involved, and discussions are going on between our analysts and Scottish Government analysts to agree a methodology for apportioning VAT receipts between Scotland and the rest of the UK. The process is not straightforward because of the way in which VAT works, given that there are different stages in the production of things and one has to attribute it, and given that there are zero-rated elements, but a joint methodology is being developed between HMRC analysts, the Treasury and the Scottish Government to enable us to develop a model that everyone is happy with.

Jim Harra: That should be invisible to VAT payers.

Sarah Walker: Absolutely—yes.

Ivan McKee: But it clearly makes a difference in terms of—

Sarah Walker: That work may involve collecting more evidence. One idea is to have surveys of particular types of expenditure in Scotland to fill the gaps in the information that we hold. If we need to do that, it will happen.

Ivan McKee: So the mechanism for that is still a work in progress.

Sarah Walker: Yes.

Ivan McKee: I have one final point. In your submission, you refer to

"HMRC's high level compliance approach",

an

"analysis of risks"

and

"the likely behaviour of different categories of taxpayer".

Will you say a bit more about your thinking on that?

Jim Harra: The Scottish Government and, I guess, the Scottish Parliament have two interests in our compliance work. First, if and when there is a divergence in rates and thresholds, there is an interest in our management of the compliance risks to which that gives rise in terms of the identification of Scottish taxpayers and the behaviours that that might generate. Secondly, there is an interest in our more general compliance work to close the tax gap in income tax, some of which should benefit the Scottish Government.

The first of those activities is paid for by the Scottish Government, and we will agree with the Government what we will do year on year. What we do, and the cost of it, will depend on the compliance risks that the differences throw up.

On general compliance management, there are limitations on the extent to which we can disaggregate the effect on Scotland and there are timing limitations on the extent to which that data is available when we do the reckoning 15 months after the end of the financial year. Therefore, the extra contribution, if we can call it that, that the Scottish Government will get from HMRC's general compliance efforts will come from a share of our UK-wide compliance yield.

James Kelly (Glasgow) (Lab): My question is about how you build up the forecast, which Ivan McKee asked about. Does the 87 per cent of tax receipts represent 87 per cent of taxpayers, which is roughly 2.5 million, or 87 per cent of the monetary volume?

Sarah Walker: It is the revenue—it is 87 per cent of the money.

James Kelly: It is 87 per cent of the revenue so, when you run the first month's forecast, if you are collecting the tax correctly, you have 87 per cent of it in, and the self-assessment element represents 13 per cent. That gives you the ability to run a rough monthly forecast.

Sarah Walker: Yes.

Jim Harra: We monitor over time whether the figure is staying at 86 or 87 per cent, because changes in the economy can cause changes in employment patterns and in the proportion of self-employed versus employed people. The picture is not static, but that was the proportion based on 2013-14 data.

James Kelly: There is obviously a delay in people making self-assessment returns, which can be 10 months beyond the end of the financial year, and a further delay before they make the payments. How do you update your forecasts as more information becomes available on the self-assessment element?

Sarah Walker: The intention is that we will publish an initial estimate in our accounts in the summer after the end of the financial year. In summer 2017, we will publish an initial estimate of the liabilities—the amount that the Scottish Government will get—for 2016-17. That will be based on PAYE revenues, which we will have had by then but, as Jim Harra said, there will still be self-assessment money and the final end-of-year reconciliation for PAYE to do. A year after that, we should have had all the self-assessment returns in, so we should have a much better idea of what is coming in by self-assessment and we will have finished the reconciliation to PAYE. The idea is that we should have had more than 99 per cent of the revenue in by the 15-month point, and an estimate will be made of the final small amount that is still to be recovered through compliance activity beyond the 15 months.

James Kelly: How is that process split between self-assessment returns and payments that are made in relation to them?

Sarah Walker: The calculation is based on the actual receipts through PAYE and actual receipts that have come in through self-assessment but are due by 31 January. There is then an estimate of the amounts that have not yet been paid and need to be recovered. That estimate is added on, but it is a small proportion.

James Kelly: How is that reconciled once the payments for self-assessment have come in?

Sarah Walker: There is no further reconciliation after the 15-month point. That is a cut-off and the adjustment to the block grant is determined at that point. If there is a risk that any amounts that come in beyond that will differ from what is estimated at the 15-month point, HMRC rather than the Scottish Government will bear that risk.

James Kelly: To be clear, even when we get to the final figures that are used for the block grant adjustment, there is an element of forecast in relation to self-assessment. Are you able to put a percentage figure on that?

12:00

Sarah Walker: It is 1 or 2 per cent of the total. It is a very small amount.

James Kelly: It would be useful if we knew the exact percentage because, although you are saying that 1 or 2 per cent is very small, the amount of finance that we are dealing with could be quite sizeable. I do not mean that you should provide it right now.

Sarah Walker: Okay. We can give you some more detail. We have previously issued a paper that gives some idea of how that is calculated and I am happy to send it.

Jim Harra: I appreciate that, in absolute terms, even a small percentage can be large but a key point is that, while a small proportion of that final reconciliation at the 15th month period is still an estimate, it is not provisional; it is the final reckoning. There is no risk that, after the 15-month point, we will come along and say that the estimate needs to be changed.

James Kelly: Just say for saying's sake that the estimate was lower than the actual value. In terms of the amount of money used in the block grant adjustment calculation, the actual figures could suggest that that should have been higher. Is an adjustment made for that? There is a potential loss there for the Scottish Government.

Sarah Walker: To go back to what Jim Harra said earlier, it is always going to be really difficult to identify amounts recovered. For instance, when an employer goes out of business without paying all the PAYE that it owes, and we recover a partial amount in the company liquidation, we would not necessarily go back and attribute the amount that we got between individual employees. There will be circumstances in which it is not possible for us to finally identify the revenues that we get in through compliance activity against individual Scottish employees or taxpayers.

Similarly, when we collect money from an individual through self-assessment, it will not always be possible to separate that between the element of income tax on earned income that is due to the Scottish Government and other tax, such as national insurance or capital gains tax, that is payable. There will be all sorts of reasons why, in practice, we will never get an absolute figure. The idea is that we have a cut-off at the 15-month point. We do an estimate where there is an upside risk and a downside risk on a small element of that, but the block grant adjustment is the cut-off point.

James Kelly: There is a cut-off point at that stage. An element of the adjustment is an estimate and it is not revisited in a future reconciliation.

Sarah Walker: No.

Jim Harra: That is correct.

Patrick Harvie: I want to follow up on some of Ivan McKee's earlier questions. I welcome your response to the question about publishing tax revenues broken down by band for Scotland. I understand that the Scottish Parliament information centre has been unable to access that information since a freedom of information request last year. If that information is going to be published in future, that is welcome. It might be useful if you could write to the committee to let us know when that will happen and how frequently.

As I understand it, you have also published illustrative figures for a tax change, but only in relation to a 1p change to the Scottish rate of income tax. What is the rationale for publishing illustrative figures in relation to only that relatively simple change? Given that new and more flexible income tax powers are coming, do you intend to produce a wider range of illustrative figures for the kinds of changes that are now possible?

Sarah Walker: You are right about what we have published. For a long time, we have published a figure for a penny on the income tax for Scotland and that goes back to the Scottish variable rate, from even before the Scotland Act 2012. We have not been asked to publish a wider range of illustrative figures and I wonder whether that is more for the Scottish Government to do, rather than us. There is no reason why we would not be able to do that if it was required. There has always been a statutory requirement for us to publish that 1p figure.

Patrick Harvie: Would it have to be the Scottish Government that made that request rather than the Scottish Parliament?

Sarah Walker: That would be the case only because the forecasting of revenues from the Scottish rate will be for the Scottish Fiscal Commission or the Scottish Government, rather than us, to do. That is why it would be for the Scottish Government to make such a request.

Jim Harra: Sarah Walker is right. Under the MOU and the service-level agreement, we will clarify what data we can give to the Scottish Fiscal Commission and the Scottish Government to help them to do what they need to do. Under the devolution of the additional income tax powers, it is for the SFC and the Scottish Government to do the forecasting and to assess the impacts of potential policy changes.

Patrick Harvie: I certainly appreciate that. I merely make the point that, particularly in a period of minority government, it is for the Scottish Parliament to set the assumptions under which that work might be carried out, rather than merely the Scottish Government.

Adam Tomkins (Glasgow) (Con): I want to pick up on what was said to Ivan McKee about intergovernmental negotiations on the future of VAT assignment and what was said to Patrick Harvie about the relationship between HMRC's work and obligations with regard to publishing illustrative figures and the work of the SFC.

I will begin with a general question, after which we can drill down into some of the specifics. Am I right in understanding that working intergovernmentally is a new venture for HMRC? If I am right about that, how would you reflect on your experience of it so far?

Sarah Walker: We have been working with the Scottish Government since 2012 on the income tax devolution and the devolution to Scotland of land and buildings transaction tax and landfill tax, and before then on the Scottish variable rate. We have a pretty good relationship with the Scottish Government, which we have developed over that period. Therefore, for us, working with the Scottish Government is not new. It is a strong relationship and there is quite a lot of trust on both sides.

We have delivered the start-up of Revenue Scotland and have got through issues such as the 420,000 missing names. We took the Scottish Government into our confidence at a very early stage and worked closely with it on a formal process of review points and the governance of the delivery programme.

We do not yet have the same relationship with the Scottish Fiscal Commission, which is still establishing itself. It has now asked to come and talk to us about setting up a memorandum of understanding on all the issues that we need to—

Adam Tomkins: When do you expect that we could see that?

Sarah Walker: I do not know, because we have not yet had our first meeting. We were approached by the SFC a couple of weeks ago, and we will have a meeting in the new year. We need to hear from the commission what it thinks that agreement should cover. I do not see any problem with us being able to do what you suggest, but I cannot give an estimate of how long it will take.

Adam Tomkins: I am trying to understand how HMRC fits into the mosaic—the machinery—of intergovernmental relations. We know that the joint ministerial committee sits at the top of that mosaic—if mosaics have tops—but we also know that HMRC is a non-ministerial department, so how does HMRC feed into the JMC and indeed the joint exchequer committee? Are you represented in meetings of the JMC or the joint exchequer committee and, if so, by whom?

Sarah Walker: We are represented at what is called the JEC(O)—the committee of officials that services the joint exchequer committee—and we report to Treasury ministers, so Treasury ministers will represent our interests, just as they represent the interests of the Treasury.

Jim Harra: It is worth elaborating on our status as a non-ministerial department, because it strengthens our ability to work with the Scottish Government. Out status means that, in practice, ministers do not get involved in the day-to-day running of HMRC or the day-to-day administration of the tax system. Under statute, we stand apart from ministers on that.

In that sense, we probably already have a slightly client relationship with Westminster ministers, which I think we can replicate in Scotland. However, we act under the general direction of Treasury ministers—the chancellor or a junior Treasury minister that the chancellor appoints—to set our budget, targets and so on. That means that, at ministerial level, we can have representation in Cabinet committees or whatever.

Being non-ministerial simply means that, under statute, I and the other commissioners of Revenue and Customs are responsible for administering the tax system. It also means that we have a slightly client relationship with whoever we are working for, whether it is the Scottish Government or the Westminster Government.

Adam Tomkins: Is most of your experience of intergovernmental relations bilateral, between the UK and Scotland, or is some of it quadrilateral? As I understand it, under the Wales Act 2014, there is now a Welsh rate of income tax, which mirrors the Scottish rate of income tax that we got under our Calman powers. What is the relationship between the bilateralism and the quadrilateralism?

Jim Harra: There are devolved tax powers for Wales and Northern Ireland, which, like the Scottish devolved powers, vary. With some of them, the devolved Government does its own administration, and with others, HMRC does the administration. Those are all quite different devolved powers and they need to be managed individually, so we would have bilateral relations with each Government.

Sarah Walker: The settlements are not the same. There are differences in the devolution settlements with Northern Ireland, with Wales and with Scotland, and we have separate relationships with each.

The Convener: Willie Coffey wanted to pick up on some advice and support issues.

Willie Coffey: I want to ask about the advice, support, inquiries, complaints and appeals side of the process. Sarah Walker, I think that you said that there is an estimate of £5 million for that support service. If I picked you up wrong, perhaps you could explain. Is that part of the overall cost estimate for the whole project? Where is that support service provided from? Jim Harra, I think you mentioned that you will be developing the online side of the process. Do you see the cost diminishing as the online system kicks in?

Jim Harra: In terms of support services, while there is no variation in rates or thresholds, we have estimated the cost of that service to be quite small—between £1.5 million and £2 million a year on an on-going basis. That is because we do not expect Scottish taxpayers to raise many inquiries with us, or to challenge their Scottish taxpayer status or non-Scottish taxpayer status, or for us to have to do much to manage compliance risks around identification of Scottish taxpayers.

However, once there is some variation, the cost will increase because we would expect there to be more contact from taxpayers checking, querying or challenging their status. There would also be more compliance risks that we would have to manage. That is reflected in that £5.5 million to £6 million.

What the actual costs are will depend on what the differential is and what the operational risks, in terms of contact, and the compliance risks turn out to be. We just have to wait and see.

You are absolutely right. Under our transformation programme, we are trying to drive down our overall departmental costs of administering the tax system, particularly with regard to more routine matters, such as handling contact, where we believe that taxpayers can do more to self-serve, if you like. I expect that some of that dividend would be reflected in what it costs to administer Scottish income tax in future.

Willie Coffey: Where will that support service be provided from? Will it be East Kilbride?

Sarah Walker: There will be a range of services. Phone calls that come in through our contact centres could be routed to anywhere in the country. There is no individual contact centre system. There will be letters, which could also be dealt with anywhere in the country. There will be complaints. Most of our activity is centralised, so there will be not be a dedicated office anywhere to deal with that contact. It will be managed throughout the HMRC system.

12:15

Jim Harra: That goes back to a point that I made earlier about our locations transformation. We are a national business and, increasingly, we do not use local offices to service a local population. Obviously, some aspects of our work require local activity. We have a needs-enhanced support service that goes out to vulnerable customers who need face-to-face contact, usually in their home or at a site near where they live. We have staff who go out and collect debts and staff who visit people as part of compliance monitoring. Beyond that, though, a lot of the work that we do is done nationally and can be done in any location. We therefore locate our work where we can get the best workforce, estate and infrastructure. About 12 per cent of our workforce is based in Scotland, which is higher than the population proportions in the UK and higher than the taxpayer population. That reflects the fact that our staff, for example in East Kilbride, are answering phone calls from all over the UK. Under our transformation plans, we would not expect that to change.

The Convener: I have one other slightly tangential question. I was reading an article in the *Financial Times* a couple of weeks ago about the increase in the number of incorporations. It was claimed that the number has gone up by about 25 per cent. If there has been such an increase, is there a profile in HMRC's database and information that you have available that you could share with the committee, so that we know what the increase looks like? There is the potential for a significant impact on our income tax take in the longer term, depending on the behaviour changes of individual taxpayers. Do you have any information on that area?

Jim Harra: I will certainly look at what we can give you. You are right, in that there are incentives in the tax system, as well as other reasons why people may choose to incorporate, which shifts income out of income tax into corporation tax. Depending on what policy decisions were taken in Scotland, that could have an impact in Scotland that might be different from the impact in the rest of the UK. There is no doubt that there has been a trend of increasing incorporation of businesses. People do it for a variety reasons, but tax is definitely an incentive to incorporation. We will look at what we can provide you.

The Convener: Thank you. There are no further questions, so I thank Jim Harra and Sarah Walker for coming along and giving us evidence today. You have explained clearly the challenges that you face, for which we are very grateful.

12:17

Meeting continued in private until 12:23.

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