RESOURCE ACCOUNTS

Revenue Scotland
Annual Report and Accounts
for the year ended
31 March 2019

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Statement from the Chair
Dr Keith Nicholson

I am pleased to present Revenue Scotland's Annual Report and Accounts for the Resource Accounts for 2018-19.

This is a significant year for Revenue Scotland as it marks the first year of its second Corporate Plan covering our strategic delivery objectives for 2018-21.

After four years of operation, Revenue Scotland is a maturing and forward-looking organisation that values and embodies efficiency and expertise, works collaboratively and inclusively, and places a high value on its staff.

2018-19 also marked the first year of the new National Performance Framework. I am pleased to say that Revenue Scotland has made a significant contribution to the delivery of Scotland's public services and the National Outcomes through the collection of £706 million of revenue from Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) for the Scottish Exchequer. This represents a total contribution to Scotland's public finances in excess of £2.5 billion since 2015. More details on the devolved taxes can be found within the accompanying *Annual Report and Accounts of the Devolved Taxes for 2018-19*.

2018-19 has been a busy year for Revenue Scotland as we moved apace into the procurement and detailed design for the new Scottish Electronic Tax System (SETS), a programme of work with efficiency at its core, which has ushered in a corresponding transformation of the way we carry out our business when it went live in July 2019. This has drawn on a wide range of expertise from across Revenue Scotland and beyond and continued engagement with stakeholders has been a key feature in developing the new system.

This year we also continued to support taxpayers in understanding and complying with new and changing aspects of the tax regime through updated guidance and outreach. This has included supporting tenants with leases subject to LBTT, introducing first-time buyer's relief and new rates and bands for LBTT.

We are now fully into the implementation of Revenue Scotland's People Strategy and 2018-19 saw a project to develop the Scottish Tax Education Programme as a bespoke training programme that will ensure that Revenue Scotland staff have the required skills and expertise to continue our success.

Revenue Scotland is a maturing and forward-looking organisation that values and embodies efficiency and expertise, working collaboratively and inclusively, and placing a high value on its staff.

Cyber security is an ongoing priority for Revenue Scotland and 2018-19 has seen a great amount of work in this area. I am pleased to say that Revenue Scotland has achieved Cyber Essential Accreditation which is testament to our commitment in this area. Work will continue to ensure that Revenue Scotland retains a high standard of cyber security.

Following the organisation's success in achieving Official Statistics status in 2017-18, Revenue Scotland published its first Annual Statistics Publication, in January 2019. This publication provides an overview of trends in the revenue from Scotland's wholly devolved taxes, and includes analysis of tax trends across different local authority areas, illustrating variations in different parts of Scotland. This is information that we know will be useful for our data users.

Revenue Scotland also produced its first British Sign Language (BSL) Plan this year, which was developed in consultation with BSL users. BSL videos about the annual report and corporate plan are now posted to the website, and over the period of the plan (2018-24) we will be increasing the amount of BSL content available through our website.

I would like to take this opportunity to give my thanks to all the people who have contributed to our work this year and to the staff of Revenue Scotland who have worked hard to deliver business-as-usual alongside major projects such as the SETS replacement.

Along with my fellow Board members I look forward to continuing to work towards the delivery of the strategic objectives of the Corporate Plan, demonstrating an excellent standard of service through investing in our people, reaching out and looking ahead, ensuring that Revenue Scotland continues to collect the devolved taxes in an efficient and effective way and promoting high standards of tax compliance.

The Revenue Scotland Board congratulates and thanks Elaine Lorimer and her team for their commitment and achievements during a very busy year.

Dr Keith Nicholson,
Chair of Revenue Scotland

Performance Report 2018-19

Statement from the Chief Executive and Accountable Officer

As Chief Executive of Revenue Scotland I am delighted to report on the progress and achievements of the organisation during this first year of our second Corporate Plan period covering 2018-21. The Corporate Plan, which was laid in Parliament in May 2018, sets out our clear focus on four strategic themes: Excelling in Delivery, Investing in Our People, Reaching Out and Looking Ahead.

Through these early years of our operation, Revenue Scotland has developed into a dynamic organisation, responsive to change and committed to a culture of learning and continuous improvement. These features are epitomised by the major programme to replace the Scottish Electronic Tax System (SETS) and the project to develop a Scottish Tax Education Programme (STEP) for staff which delivered its pilot module this year. These have been major developments and I am looking forward to seeing the impact of both as they come to fruition over the course of the next year.

Revenue Scotland's staff are its most important resource. During this period of transition, we have continued to improve our People Survey Scores with an Employee Engagement Index Score rising from 62% to 67% which I'm proud to say puts us in the top 25% of Civil Service organisations taking part UK wide, and second top in Scotland. The Employee Engagement Index tells us how people feel about working in our organisation. That we have achieved this score in such an eventful year, where staff have been involved in delivering significant and fundamental change through the new SETS system is testament to the character and expertise of my staff, who willingly and actively participate in change and continuous improvement.

Our key achievements this year have included:

- A total combined tax revenue for Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) of £706m was reported in 2018-19. These revenues support the funding of public services in Scotland upon which we all rely. More details on the devolved taxes can be found within the accompanying *Annual Report and Accounts of the Devolved Taxes for 2018-19*.
- Tax compliance work has continued to be a key focus for us in 2018-19 and this has seen revenue raised through compliance activity of £1.03m this year. Compliance activity will remain a focus for Revenue Scotland next year and we will publish our new Compliance Strategy during 2019.
- Devolved Tax Forums were held across Scotland with forums on LBTT in Edinburgh and Aberdeen and a forum on SLfT in Perth. These events give agents and other stakeholders an opportunity to discuss issues and ask questions.
- The first annual statistics publication from Revenue Scotland summarising trends in the performance of LBTT and SLfT over the first 3 years of operation; this will be published annually to provide analysis and insight into the devolved taxes.
- Revenue Scotland published its first British Sign Language (BSL) Plan and produced BSL videos on our Corporate Plan and Annual Report and Accounts.

Revenue Scotland has developed into a dynamic organisation, responsive to change and committed to a culture of learning and continuous improvement.

- A major procurement for the new SETS system was carried out and most of the design work completed. The new system successfully went live in July 2019.
- The ongoing delivery of the People Strategy, including the scoping of the STEP programme and investment in other learning and development opportunities, two staff conferences and a significant recruitment of new staff in a wide range of roles across the organisation.
- Achieved Cyber Essentials Accreditation which is the result of the ongoing focus on cyber security at Revenue Scotland.
- Our level of controls were assessed as 'substantial' by the Internal Auditors.

Taxation is a continually changing environment in which to operate and this year has, of course, not been without its challenges. We have responded to a number of legislative changes, including a new relief from LBTT for First Time Buyers and changes to LBTT Group Relief, and we implemented changes to tax rates and bands for non-residential LBTT, the Additional Dwelling Supplement (ADS) and SLfT. We are seeing an increase in the volume and complexity of requests from taxpayers and their agents. For example, opinion requests tend to be focused on the most complex types of land transaction, as the more straightforward aspects of the legislation are now more generally understood. There has also been an increase in calls to the support desk relating to the first year of three year lease review returns as taxpayers and their agents develop their understanding of this requirement. Along with the major programmes of work we are undertaking, this has meant I have asked even more of my staff and I have been immensely proud of how they have worked together and risen to the challenge.

The impact of the demands upon us in the past year can be seen in the results of some of our Key Performance Indicators (KPIs). While we have met or exceeded 7 of our 11 KPIs, the KPIs which relate to the length of time Revenue Scotland takes to respond to correspondence from taxpayers and their agents, along with the time taken to conclude opinion requests and the time to conclude reviews, have not met their targets. This was recognised early in the year, with an improvement plan put in place and closely monitored by Senior Management and the Board. Measures have included improvements to processes and the recruitment of additional staff. These have been successful in delivering improvements to the KPI results, and early indications for 2019-20 demonstrate that these improvements have been sustained.

As I reflect on a demanding but very satisfying year, I wish to thank my staff, our operational partners Registers of Scotland and Scottish Environment Protection Agency (SEPA), our stakeholders, Scottish Government Ministers and officials, Members of the Scottish Parliament, and of course, taxpayers and their agents for supporting us in delivering our objectives for this year.

I am very much looking forward to the year ahead, which promises to be equally rewarding as we launch our new online tax system.

Elaine Lorimer,
Chief Executive of Revenue Scotland
and Accountable Officer

September 2019

Performance Report 2018-19
Overview

This overview gives a summary of Revenue Scotland's purpose and objectives, key risks to the delivery of objectives, budget and performance during the year. Further detail is included within the Performance Analysis section on page 18.

Introduction

The structure of the performance report has changed slightly this year to reflect the strategic objectives outlined in the new Revenue Scotland Corporate Plan 2018-21, and includes a short performance summary and more detail in the analysis section.

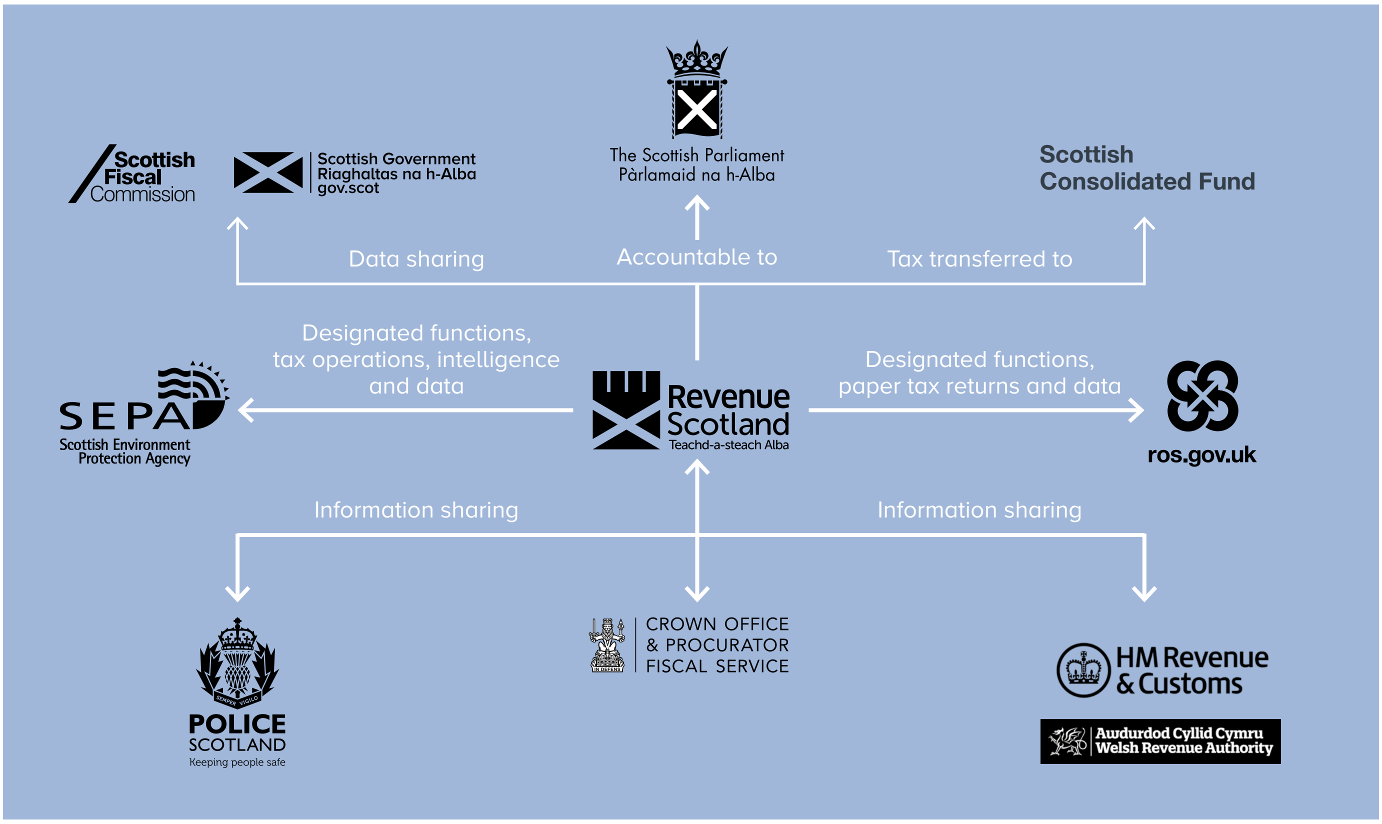
These changes adhere to the accounts directions for the accounts, a copy of which is available at the end of the document.

Who we are and what we do

Revenue Scotland was established by the Revenue Scotland and Tax Powers Act 2014 (RSTPA) and is responsible for the collection and management of the taxes fully devolved to Scotland – currently Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT).

As a Non-Ministerial Department, Revenue Scotland is part of the Scottish Administration and is directly accountable to the Scottish Parliament to ensure the administration of tax is independent, fair and impartial.

Our Operating Environment



Performance Report 2018-19
Overview

Revenue Scotland delegates the delivery of specific functions for the collection of SLfT to the Scottish Environment Protection Agency (SEPA) and the delivery of LBTT functions are delegated to Registers of Scotland (RoS) to enable the processing of paper-based tax returns.

The Scottish Government is responsible for tax policy and the setting of tax rates, while the Scottish Fiscal Commission (SFC) is responsible for providing independent forecasts of tax revenue in line with the Fiscal Framework.

To support this forecasting work, Revenue Scotland provides the SFC with the SLfT and LBTT data that it requires for forecasting and forecast evaluation purposes. As set out in Revenue Scotland's Data Analysis Strategy, this data is provided in aggregate form to ensure the protection of individual taxpayers' information. The aggregated data is also made publicly available on the statistics pages of the Revenue Scotland website.

How we are governed

The Revenue Scotland Board currently comprises five members who are appointed by Scottish Ministers through the Scottish Public Appointments process. The Board has responsibility for the strategic direction, oversight and governance of Revenue Scotland. Board members provide specialist knowledge and act as ambassadors, promoting the policies and values of the organisation.

The Board has two committees: the Audit and Risk Committee and the Staffing and Equalities Committee. Each committee provides detailed and specialist consideration of key areas of work and report these to the Board.

The Chief Executive is not a Board Member but is accountable to the Board and, in a personal capacity, is the Accountable Officer. The Chief Executive is responsible for the day-to-day operation of Revenue Scotland and leadership of the organisation.

Further details about the activities of the Board, Committees and staff are contained in the Performance Analysis and Accountability Report sections.

Performance Report 2018-19
Overview

How we are funded

Revenue Scotland is part of the Scottish Administration and has its own budget set out in the annual Budget Bill. During the Spending Review period and as part of the draft Budget process, Revenue Scotland identifies its resource needs which are considered by Scottish Ministers along with those of other public bodies and Scottish Government portfolios. Ministers determine the budget proposals which are submitted to the Scottish Parliament for consideration and approval within the Budget Bill, including the proposed budget for Revenue Scotland. Where additional funding for major programmes is required (such as the replacement for the Scottish Electronic Tax System (SETS)), proposals for funding are developed in line with the guidance on business cases in HM Treasury's "The Green Book: appraisal and evaluation in central government".

Revenue Scotland has full authority to incur expenditure on individual items but this is subject to the limits imposed by the budget allocated by the Scottish Parliament and guidance from Scottish Ministers.

Revenue Scotland is responsible for managing its budget for each financial year to deliver its statutory functions.

Revenue Scotland's Purpose and Vision

In April 2018, Revenue Scotland published its new 2018-21 Corporate Plan, setting the Purpose, Vision and Strategic Objectives of the organisation over the three-year period.

The purpose of Revenue Scotland is "to efficiently and effectively collect and manage the devolved taxes which fund public services for the benefit of the people of Scotland."

Revenue Scotland's vision is "To be a recognised leader in the delivery of tax administration, and as experts in our field; adaptable to change, resilient to challenges and far reaching in our engagement."

Performance Report 2018-19
Overview

2018-21 Strategic Objectives

The Revenue Scotland 2018-21 Corporate Plan sets out 4 strategic objectives for the period:

1. Excelling in Delivery

Establish ourselves as experts in what we do: collecting and managing the devolved taxes through an accessible, convenient and taxpayer-focused service

2. Investing in our People

Develop and support a highly skilled and engaged workforce, upholding the standards of professionalism and integrity

3. Reaching Out

Build on our reputation as an accessible, collaborative and transparent public body, keen to learn from others and share our experiences and expertise

4. Looking Ahead

Plan and deliver change and improvements to our systems and processes flexibly, on time and on budget

How we deliver our purpose and measure our success

Revenue Scotland delivers its purpose through the strategic objectives in the Corporate Plan including through the agreed key projects for the year. Performance is measured against the aims of the key projects and the key performance indicators as set out in the Corporate Plan.

Performance Report 2018-19
Overview

National Performance Framework

Revenue Scotland's work in the efficient and effective collection of tax as set out in our Corporate Plan, encouraging a culture of responsible tax paying and ensuring compliance with the wholly devolved tax regimes, ensures the availability of revenue to support the delivery of public services in Scotland and the delivery of the National Outcomes.

In addition, Revenue Scotland contributes directly to the National Outcomes through investment in staff, commitment to equality, diversity and human rights, through working in collaboration with stakeholders and taxpayers and acting in an open, transparent and accountable manner.

National Indicator	Excelling in Delivery	Investing in our People	Reaching Out	Looking Ahead
We grow up loved, safe and respected so that we realise our full potential	✓			
We live in communities that are inclusive resilient and safe	✓		✓	
We are creative and our vibrant and diverse cultures are expressed and enjoyed widely	✓			
We have a globally competitive, entrepreneurial, inclusive and sustainable economy	✓		✓	✓
We are well educated, skilled and able to contribute to society	✓	✓		
We value, enjoy, protect and enhance our environment	✓			
We have thriving and innovative businesses with quality jobs and fair work for everyone	✓	✓		
We are healthy and active	✓			
We respect, protect and fulfil human rights and live free from discrimination	✓	✓		✓
We are open, connected and make a positive contribution internationally			✓	✓
We tackle poverty by sharing opportunities, wealth and power more equally	✓			

Performance Report 2018-19
Overview

Wider Context – Key Issues and Risks

In 2018-19 the wider context within which Revenue Scotland operates has continued to evolve. As a result of the Budget Process Review Group recommendations (which were reported in our Annual Report and Accounts for 2017-18[1]), the Scottish Parliament introduced a new process for budget scrutiny. Revenue Scotland participated in the Finance Committee roundtable discussion on 26 September 2018 and the Environment Committee on 2 May 2019. Revenue Scotland looks forward to contributing further as this process develops. The Scottish Government also published a Medium Term Financial Strategy on 31 May 2018[2]. This, together with subsequent updates, provides the context for the devolved taxes and any further developments in relation to them. Our relationship with the Scottish Government concerning tax policy is maturing and we welcomed the opportunity to work closely with officials on the legislation and operational impact of changes to LBTT over the course of the year.

The Scottish Fiscal Commission's role has also continued to mature and Revenue Scotland has supported the work of the Commission through the provision of data and advice relating to analysis of the performance of the devolved taxes, underpinned by a Memorandum of Understanding.

Outside of Scotland, Revenue Scotland actively supported the work of the Welsh Government in the establishment of the Welsh Revenue Authority (WRA), which moved to live operations on 1 April 2018. This now means there are three tax authorities operating in the United Kingdom, operating to different legislation. We have prioritised continuing to build strong working relationships with HMRC and the WRA to ensure that we share best practice as well as technical approach to compliance issues.

Finally, over the course of the year, the impact of Brexit on our operations has been considered. We have contributed to Scottish Government impact analysis, which for Revenue Scotland mostly related to impact on staff and we stand ready to support the Scottish Government in their on-going planning.

1 https://www.revenue.scot/sites/default/files/217145_SCT0518607256-1_Revenue_Scotland_AR_p8%20%281%29.pdf
2 https://www.gov.scot/publications/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2019/

Performance Report 2018-19
Overview

Performance Summary

This section gives an overview of Revenue Scotland's performance across 2018-19 against the delivery priorities articulated through the 2018-21 Corporate Plan.

Key Projects

As part of the Annual Business Plan, Revenue Scotland identified six Key Projects for 2018-19 which represent a large investment and/or which are of strategic importance to the organisation. At the end of 2018-19, all projects were either complete or delivering well. The Tax Compliance Strategy and Cyber Catalyst projects are on track to be completed in early 2019-20. The LEAP and Learning and Development projects are progressing well and will be ongoing throughout 2019-20.

Project	Description	Status
LBTT Change Project	A project to implement legislative changes including Lease Reviews, First-time Buyer and Group Relief and Retrospective ADS	Project Complete
Records Management Plan	Develop and deliver the Revenue Scotland Records Management Plan to the Keeper of the Records of Scotland in line with the Public Records (Scotland) Act 2011	Project Complete
Tax Compliance Strategy and compliance plan	Development of a compliance strategy for Revenue Scotland, with revised compliance plans for each tax.	Strategy on course for publication in 2019
Cyber Catalyst	Alignment of Revenue Scotland Cyber Security practices with Public Sector Action Plan on Cyber Security best practice, including relevant accreditation.	Cyber Essential Accreditation Achieved – project to continue into start of 2019-20
LEAP – Scottish Electronic Tax System	To secure a tax administration capability on cessation of the current contract in 2019	Phase 1 went live in July 2019 – project continues into 2019-20
Learning and Development Model and STEP	To put a sustainable learning and development model and programme in place for all staff and develop a tax specialist training programme – STEP.	Design of the STEP programme and delivery of the pilot module is complete – project continues into 2019-20

Performance Report 2018-19
Overview

Key Performance Indicators Overview

The 2018-21 Corporate Plan sets eleven Key Performance Indicators (KPIs) which demonstrate Revenue Scotland's performance against the Plan.

In 2018-19 seven out of eleven KPIs were achieved or exceeded and three (KPI 5: % of reviews concluded within statutory timescales, KPI 8: proportion of taxpayer or agent-initiated correspondence responded to within 10 working days and KPI 9: proportion of Opinion Requests responded to within 25 days) were not achieved. In addition, KPI 3: Tax secured through Revenue Scotland's compliance activity saw revenue reduced since 2017-18; this is related to the impact of longer running cases; more information on this is given on page 30.

No.	Indicator	Target/ Indicator	Result	Status	More info
1	Average waiting time for all calls made to the support desk	<10 seconds	5.2 seconds	Exceeded	p.22
2	Proportion of all tax returns that receive no Revenue Scotland intervention	Comparison to 2017-18 baseline (98.7%)	99.6%	Exceeded	p.21
3	Tax secured through Revenue Scotland's compliance activity	2017-18 baseline (2.4m)	£1,025,878		p.30
4	Average length of enquiries	18 months (548 days)	372 days	Exceeded	p.29
5	% of reviews concluded within statutory timescales (75 days)	100%	90%	Not achieved	p.32
6	% appealable Revenue Scotland decisions which are upheld to conclusion	50%	56%	Exceeded	p.32
7	Employee engagement index to be in the top 25% of all civil service organisations	Top 25% of organisations	22nd out of 102 organisations	Exceeded	p.35
8	Proportion of taxpayer or agent-initiated correspondence responded to within 10 working days (excluding opinions)	95%	90%	Not achieved	p.23
9	Proportion of opinion requests responded to within 25 days	95%	70%	Not achieved	p.23
10	% of complaints closed within target (20 days)	100%	100%	Achieved	p.31
11	Administrative cost of tax received against OECD benchmark (Revenue Scotland annual resource costs less any programme costs divided by total tax & penalties reported)	0.73% (OECD Benchmark)	0.73%	Achieved	p.42

Performance Report 2018-19
Overview

Financial Performance

Resource Accounts

	Actual Total £'000	Budget Total £'000
Financial Year 2018-19 Expenditure	6,220	6,210
Financial Year 2017-18 Expenditure	5,485	6,121

The budget figures given above are the final budget after adjustment in the Spring Budget Review. In 2018-19 expenditure on capital items totalled £1.2m against a capital budget of £1.6m.

In 2018-19, expenditure exceeded the budget by £10,000. Scottish Ministers have confirmed that they are content with this overspend and a letter of assurance has been provided by Scottish Ministers.

Devolved Taxes

Revenue net of repayment,excluding interest payable and revenue losses	2018-19 Tax, penalties and interest receivable Total £'000	2018-19 Budget Act Estimates Total £'000	2017-18 Tax, penalties and interest receivable Total £'000
Land and Buildings Transaction Tax	554,185	588,000	557,267
Scottish Landfill Tax	148,517	106,000	147,984
Penalties and interest	3,135	0	1,754
Total	**705,837**	**694,000**	**707,005**

Performance Report 2018-19
Overview

The values in the above table are for tax returns and amendments submitted during 2018-19 and adjusted for the value of LBTT and SLfT returns received during April and May 2019 which relate to the period up to March 2019. The returns submitted during 2018-19 may include adjustments to returns originally submitted in previous financial years. However, unless these adjustments were received in April or May of the relevant financial period and therefore accrued into the financial statements of that year, these are accounted for in the year of receipt.

The LBTT tax raised in 2018-19 is dependent on performance of both the residential and non-residential property markets within Scotland. The SLfT tax revenue raised in 2018-19 is dependent upon categories and tonnage of waste deposited in landfill sites within Scotland.

Revenue Scotland is not responsible for the forecasting of expected tax revenue. Independent forecasts of LBTT and SLfT tax revenue are published by the Scottish Fiscal Commission, which in due course will also publish forecast evaluation reports comparing outturn figures to Budget Act estimates, detailing the reasons for any differences observed.

Further information on the collection of the devolved taxes is given in the *Annual Report and Accounts of the Devolved Taxes for 2018-19* which is published separately.

Performance Report 2018-19
Performance Analysis

Performance against the Revenue Scotland Corporate Plan 2018-21

The 2018-21 Corporate Plan sets out how Revenue Scotland will carry out its functions under the Revenue Scotland and Tax Powers Act 2014 (RSTPA). The Corporate Plan identifies four strategic objectives and 17 underlying objectives for the organisation. In addition, the plan sets out 11 Key Performance Indicators (KPIs) which measure the success of the organisation in delivering against these objectives. Our performance against each of the strategic objectives is set out below and the results of each of the KPIs are discussed under the objective for which they are most relevant. A summary of the KPI results can also be found in the performance summary on page 15 In some cases KPIs are similar, or equivalent to those in the 2015-18 Corporate Plan and where this is the case comparison with 2017-18 will be provided.

Performance Report 2018-19
Performance Analysis

1. EXCELLING IN DELIVERY

Relevant Statutory Functions and aims of the Corporate Plan

Revenue Scotland carries out its general statutory duty to collect and manage the devolved taxes in accordance with the RSTPA 2014. In addition, the organisation has the following particular functions which are delivered under this strategic objective:

- providing information and assistance to taxpayers, their agents and other persons relating to the devolved taxes;
- efficiently resolving disputes relating to the devolved taxes (including by mediation); and
- protecting the revenue against tax fraud and tax avoidance.

In delivering these functions we aim to establish ourselves as experts in what we do: collecting and managing the devolved taxes through an accessible, convenient and taxpayer-focused service.

The delivery of these functions is primarily measured by the organisation's performance against the four underlying objectives set out in the Corporate Plan under 'Excelling in Delivery' and through KPIs 1-6 and 8-10.

The four underlying objectives are:

- Provide an efficient and reliable service to contribute to the smooth completion of transactions.
- Be firm and consistent in applying the devolved taxes legislation to collect the right amount of tax.
- Introduce improvements to our systems and processes that are informed by user experience.
- Continue to invest in our relationships with taxpayers and their agents.

These four objectives inform all the work of the organisation in the collection and management of tax.

Collecting the wholly devolved Scottish taxes

Revenue Scotland works in partnership with both RoS and SEPA to collect and manage Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) and has delegated specific functions to these organisations under the RSTPA.

Revenue Scotland ensures that payment of the devolved taxes is as convenient as possible, while ensuring it operates within the legislative framework. This is achieved by providing and maintaining easy to use legislative guidance, well-structured tax processes and an effective and user-friendly online tax return system (Scottish Electronic Tax System – SETS). Revenue Scotland updates and refines its guidance on an on-going basis, using feedback from taxpayers and operational experience to ensure it is accurate and fit for purpose.

Performance Report 2018-19
Performance Analysis

Tax Revenue

During the year Revenue Scotland collected £706m (2017-18: £707m) of tax revenue of which £554m (2017-18: £557m) related to LBTT and £149m (2017-18: £148m) related to SLfT.

The majority of tax returns are submitted electronically and require no intervention from Revenue Scotland. Further details on the rate of returns that do not require intervention can be found in the discussion on KPI 2 on page 21.

Additional Dwelling Supplement (ADS) Repayment Claims

ADS is an LBTT supplement on purchases of additional residential properties in Scotland (such as buy-to-let properties and second homes) of £40,000 or more. Where ADS has been paid and the buyer has been able to dispose of their previous main residence within an 18 month period, the buyer (or their solicitor acting on their behalf) may claim a repayment of the ADS paid.

There has been a slight increase in the number of repayment claims made during 2018-19. This could be attributed to several factors, including the change in legislation regarding family units, and the 18 month period during which taxpayers may dispose of their previous main residence in order to claim a repayment of ADS. The rate at which repayment requests are made by online amendment (as opposed to through paper forms) has stayed stable over the past year, and is unlikely to increase in future as any claim more than 12 months after the filing date cannot be made via online amendment.

In January 2019, the gross ADS due was £3.8m (51%) higher than January 2018 and there were 650 (+45%) more transactions with ADS due. This is likely to have been influenced by more transactions being completed prior to the increase in the ADS rate from 3% to 4% on 25 January 2019.

In 2018-19 further refinements to the ADS claim handling process were also introduced.

3 year Lease Review Returns

The Land and Buildings Transaction Tax (Scotland) Act 2013 requires the tenant in a lease that has been subject to a LBTT return to submit a further return to Revenue Scotland on certain future events, including:

- Every third anniversary of the lease;
- Assignation of the lease; and
- Termination of the lease (whether the lease is terminated early or on natural expiry).

As the first LBTT returns were submitted in April 2015, 2018-19 was the first year in which three-year lease review returns were required to be submitted. New processes have been put in place to facilitate the submission of three-year lease review returns; including the issuing of a non-statutory reminder letter to taxpayers prior to the return being due, informing them of their responsibility to submit a further return by a certain date.

Performance Report 2018-19
Performance Analysis

The volume of three-year lease review returns due for submission in 2018-19 was 5,492 and this is expected to increase to approximately 15,000 in 2024-25 when further three-year lease review returns are due in respect of leases entered into in 2015. During 2018-19, 43.6% of three-year lease review returns due for submission have been received on time, with a further 29.7% received late. Revenue Scotland is working to ensure that the outstanding returns are submitted, using a range of methods to encourage compliance including penalties. As at 31 March 2019, penalties have been assessed in respect of 2,224 transactions for which lease review returns were not received on time. Penalty correspondence issued to taxpayers has a noticeable effect on prompting submission of returns which have not been received by the filing date. The overall rate of return submission is quite consistent, with approximately 74% of returns due submitted within six months of the statutory filing date.

In addition, further work was undertaken to more accurately identify the risks associated with each of the wholly devolved taxes. The outcomes from this work have informed the Compliance Strategy, see page 27 for more information on our approach to compliance.

Guidance, advice and support

Revenue Scotland seeks to provide an efficient and reliable service and support the smooth completion of transactions, ensuring the right tax due under the law is paid by providing a wide range of advice, guidance and support. Performance in this area is primarily measured through KPIs 1, 2, 8 and 9.

Effectiveness of support and guidance

KPI 2: Proportion of all tax returns that receive no Revenue Scotland intervention[3] gives an indication of the efficiency and effectiveness of Revenue Scotland's procedures, published guidance, opinion service and support. A high proportion of tax returns being accepted as right first time will indicate that taxpayers are clear about the amount of tax that they ought to pay, with a target rate corresponding to the 2017-18 baseline of 98.7%. The 2018-19 rate exceeded the target with 99.6% of returns requiring no formal intervention.

3 This is the percentage of all self-assessed tax returns that are accepted with any need for amendment, correction or enquiry.

Performance Report 2018-19
Performance Analysis

The figures shown for 2018-19 are provisional as some corrections may not be made for several months after submission of the original tax return.

	Total number of Returns submitted	Total number of returns submitted without intervention	Percentage of returns without intervention
2018-19 Total	120,846	120,413	99.6
2017-18 Total (Baseline)	116,555	114,986	98.7

Prompt response to taxpayer calls and correspondence

KPI 1: Average waiting time for all calls made to the support desk, gives an indication of whether or not queries from taxpayers are responded to in a prompt and reliable manner, with a target average waiting time of less than 10 seconds.

All calls to Revenue Scotland's support desk are monitored in terms of the length of time taken to be answered. The organisation performed within target this year with a mean waiting time for the year of 5.2 seconds which is a 1.3 second improvement on the previous year.

This improvement has been delivered despite an increase in call volume of almost 27%. The increase in volume was in large part due to the volume of calls received from taxpayers and their agents in relation to introduction of three-year lease review returns. Calls relating to lease review returns also tend to be longer, and the mean talk time has increased as a result.

	Calls Received	Mean Waiting Time (seconds)
2018-19 Total	10,777	5.2
2017-18 Total	8,504	6.5

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KPI 8: Proportion of tax payer or agent-initiated correspondence responded to within 10 working days (excluding opinions), indicates how promptly the organisation is responding to queries from taxpayers. The target for this KPI is that 95% of taxpayer or agent initiated correspondence should be responded to within 10 working days, regardless of channel used. Whilst Revenue Scotland did not meet this target in 2018-19, 90% of correspondence was replied to within the 10 working days which maintains the rate from 2017-18, and a further 6% was responded to within 11-15 working days. Rates of correspondence continue to increase, with 3,424 received in 2018-19 compared with 3,121 in 2017-18. It was identified in quarter 1 that performance was below the standard expected by the KPI. Management focus in this area was increased, which resulted in sustained improvement from 85% in quarter 1 to 94% in quarter 4. Early results from quarter 1 in 2019-20 suggest that the target will be met or exceeded in the next reporting period.

Prompt and high quality Opinions Service

Revenue Scotland offers an opinions service for complex tax queries where a taxpayer or their agent has consulted the relevant legislation and our guidance, but is still uncertain about their tax liability for a specific transaction. The service aims to resolve genuine cases of difficulty or uncertainty, rather than providing a clearance service.

KPI 9: Proportion of opinion requests responded to within 25 days gives an indication of how promptly Revenue Scotland is responding to opinions, thereby quickly reducing areas of genuine uncertainty for taxpayers. The target is that 95% of opinions requests should be fully responded to (concluded) within 25 days. This year, in 70% of cases (21 out of 30) Revenue Scotland gave an opinion within 25 days, therefore the target was not met in 9 cases.

During this period, the number of opinion requests has declined compared with last year, but the complexity has increased, and in a small number of cases Revenue Scotland needed longer to fully consider each case. For these more complex cases it is more difficult to provide a high quality response within the 25 day period, as Revenue Scotland considers the technical application of some areas of LBTT legislation for the first time. Through regular contact, Revenue Scotland helps support taxpayers' expectations in relation to complex cases whilst seeking to deliver a high quality service.

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Supporting taxpayers to understand legislative changes

In 2018-19 Revenue Scotland worked to support taxpayers and their agents to understand and respond to changes in the devolved taxes legislation. This has involved action such as updates to the guidance and calculators on the website, videos and engagement with agents, for example at the regular forums.

Three-Year Lease Reviews

The LBTT (Scotland) Act 2013 introduced a legal requirement, which does not apply in the rest of the UK, for the tenant in a lease that has been subject to an LBTT return to submit a further return to Revenue Scotland on certain future events, including:

- Every third anniversary of the lease;
- Assignation of the lease; and
- Termination of the lease (whether the lease is terminated early or on natural expiry).

The tenant is responsible for submitting the review return and paying any additional tax due. The requirement to file a further LBTT return applies even if there have been no changes to the lease, or if no additional tax is payable.

On 1 April 2018, to coincide with the third anniversary of the first lease transactions that became liable to LBTT, Revenue Scotland updated the Scottish Electronic Tax System (SETS) to enable tenants and their agents to submit a further LBTT tax return in respect of a lease transaction. In addition, the paper LBTT return form was updated and the tax calculator amended to help leaseholders calculate the amount of LBTT due.

To help tenants understand their obligations and how to submit returns, Revenue Scotland created a new dedicated section on its website which includes legislative and 'how to' guidance, worked examples, FAQs and an information leaflet. Revenue Scotland also published three new YouTube videos – one providing a general overview of the leases review and two videos providing guidance on submitting a return for taxpayers and agents.

Case study
Excellence in Delivery

Objective:

Under the terms of the LBTT (Scotland) Act 2013, tenants in Scotland subject to an LBTT return have a legal obligation to submit a further LBTT return to Revenue Scotland in circumstances which include the third anniversary of the lease, on assignation or on termination of the lease.

During 2017-18, the organisation completed a project to raise awareness of the legal requirement among LBTT tenants. Activity focused on the period leading up to the first potential date when a lease could reach its third anniversary following the introduction of LBTT on 1 April 2015; namely, 1 April 2018.

In the weeks and months following the 1 April 2018 point, Revenue Scotland conducted analysis and reviews of the returns, including volume, and soon recognised that there was a need to renew awareness-raising efforts in a bid to increase the number of returns submitted.

Action:

The Tax Operations team worked in partnership with statistical colleagues to shed more light on the issue – for example, investigating whether there were variations in return levels based on geographical location.

Staff from the Communications and LBTT teams identified opportunities to undertake new outreach activity to reach new agricultural stakeholders who had little knowledge about the legislation.

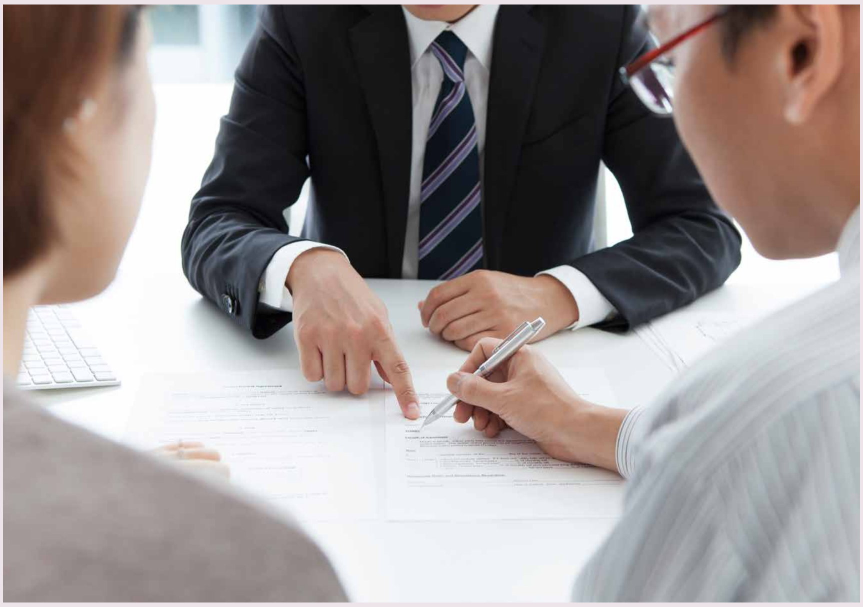
Staff also revisited some of the communications material developed in the earlier stages of the initial project to see if improvements and updates could be made to material.

Outcome:

Staff from the LBTT team conducted presentations and a Q&A session at a meeting of the Scottish Tenant Farmers Association to raise awareness with new agricultural stakeholders.

The reminder letter sent to tenants highlighting the requirement for an LBTT return was revised and articles were published through stakeholder websites – for example the Chartered Institute of Taxation website news feed.

Social media activity was run in parallel with the new activity to maximise its effectiveness.



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First Time buyer's relief

A new LBTT relief for first-time buyers came into force from 30 June 2018. Subject to certain conditions, the relief raises the zero tax threshold for eligible first-time buyers purchasing a dwelling from £145,000 to £175,000. First-time buyers purchasing a dwelling above £175,000 are also entitled to a relief on the portion of the price below the threshold.

Revenue Scotland began to prepare for these changes in early 2018 to ensure that guidance, systems and processes were ready for the introduction of the new legislation. This included updating the Revenue Scotland website with guidance and worked examples and the tax calculator to help first-time buyers and their agents calculate the amount of LBTT due. Revenue Scotland also updated SETS and paper return forms to enable taxpayers to claim the new relief.

Additional Dwelling supplement (ADS)

The Land and Buildings Transaction Tax (Relief from Additional Amount) (Scotland) Act 2018 (the "2018 LBTT Act") received Royal Assent on 22 June 2018. It made changes introduced by The Land and Buildings Transaction Tax (Additional Amount – Second Homes Main Residence Relief) (Scotland) Order 2017 (the "2017 Order") retrospective.

The 2017 Order amended the ADS rules around family units and the replacing of main residences in certain instances where spouses, civil partners or cohabitants were jointly buying a home to replace their previous home that was owned by only one of them.

The 2018 LBTT Act means that eligible transactions where the contract was entered into on or after 28 January 2016, and where the effective date of the transaction is on or after 1 April 2016, now qualify for relief/repayment.

We updated the legislative guidance on our website[4] with details of the qualifying conditions which must be met by each of the joint buyers for a relief/repayment to apply in accordance with the provisions of the 2018 LBTT Act. The ADS repayment claim form was also updated so that taxpayers and agents can make a claim to Revenue Scotland for repayment of overpaid tax if they meet the criteria.

Group Relief and Share Pledges

The Land and Buildings Transaction Tax (Group Relief Modification) (Scotland) Order 2018 (the "Order") came into force on 30 June 2018, amending the rules on group relief and the restrictions to its availability. Prior to the Order, where, for instance, a parent company transferred property to a subsidiary and the parent company granted security to a lender over the shares in the subsidiary, group relief was not available as the pledging of the shares constituted an 'arrangement' under which the lender could obtain control of the subsidiary but not the parent.

The Order inserts a new paragraph 10A which, if it applies, means that group relief is no longer restricted in transactions where the effective date of the transaction is on or after 30 June 2018 and the qualifying conditions are met.

4 https://www.revenue.scot/land-buildings-transaction-tax/guidance/lbtt-legislation-guidance/lbtt10001-lbtt-additional-dwell-24

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Further information can be found in Revenue Scotland's guidance on group relief on our website[5], which has been updated to reflect the change.

New LBTT Rates and Bands

As part of budget proposals announced in December 2018, the Scottish Government proposed changes to non-residential LBTT rates and bands and an increase in the rate of Additional Dwelling Supplement (ADS) from 3% to 4%. The changes were set out in the Land and Buildings Transaction Tax (Tax Rates and Tax Bands) (Scotland) Amendment Order 2018, which came into force on 25 January 2019 following approval by the Scottish Parliament.

The effect of the changes was:

- to reduce the lower rate of non-residential LBTT from 3% to 1%;
- to increase the upper rate of non-residential LBTT from 4.5% to 5%;
- to reduce the starting threshold of the upper rate of non-residential LBTT from £350,000 to £250,000; and
- to increase the Additional Dwelling Supplement (ADS) rate from 3% to 4% (payable on purchases of additional residential dwellings over £40,000).

Revenue Scotland updated its online guidance, tax calculators and tax returns to reflect and implement these changes.

Compliance activity

Approach to Compliance

Revenue Scotland encourages a culture of responsible taxpaying where individuals and businesses pay their taxes as the Scottish Parliament intended. As set out above, the organisation works to make it as easy as possible for taxpayers to comply with their obligations and pay the right amount of tax, while at the same time working to detect and deter non-compliance.

Revenue Scotland's approach to compliance extends well beyond basic checking of returns into enabling measures and activities designed to help taxpayers assess their tax obligations themselves, both for tax returns and any tax payments. The approach to compliance activity has three key elements:

1. Enabling – helping taxpayers comply with their tax obligations

We undertake a range of enabling activities to help taxpayers to comply with their tax obligations in their tax returns through for example, providing clear guidance, a user-friendly online system for making tax returns, and a number of options for making tax payments quickly and easily.

The services we provide include the Support Desk and mailboxes for the devolved taxes to help answer taxpayers' and agents queries. For more technical queries on particular cases, our non-statutory opinions service provides a Revenue Scotland view to taxpayers in relation to areas where there is uncertainty about the interpretation of the devolved taxes legislation.

5 https://www.revenue.scot/land-buildings-transaction-tax/guidance/lbtt-legislation-guidance/exemptions-reliefs/lbtt3010/lbtt3025

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We also engage regularly with stakeholder organisations and hold devolved taxes forums to highlight compliance and other issues.

Appealable decisions made by Revenue Scotland may be challenged by the taxpayer either by requesting a review of the decision or by appealing to the Tax Tribunals for Scotland.

2. Assurance – helping taxpayers get to the right position;

When tax returns have been made by taxpayers or their agents, Revenue Scotland carries out a number of activities to check that the returns are complete and accurate and that the correct amount of tax has been paid. These include:

- We seek to detect non-compliance early through manual and routine checks applied to returns to validate and verify the information received and highlight any errors to the taxpayer and their agent. We undertake landfill site inspections to ensure that landfill activities correspond to tax return data. We also share intelligence with other tax agencies on particular tax issues and the sharing of data.
- If necessary, Revenue Scotland can use its investigatory powers, such as the power to obtain information and documents from taxpayers and third parties or to inspect business premises of taxpayers and third parties to obtain the information and evidence required to decide the amount of tax due. If an amendment to the tax return is required, we may ask the taxpayer or agent to make the amendment.
- Where the taxpayer and Revenue Scotland do not agree the tax position, or the taxpayer is out of time to amend their tax return and Revenue Scotland believes that additional tax is due, then Revenue Scotland may issue an assessment of tax to the taxpayer. Alternatively, it may be necessary for Revenue Scotland to use its powers to carry out a statutory enquiry into the tax return.

3. Resolution – solving disputes and pursuing non-compliance

Where Revenue Scotland considers it necessary to open a statutory enquiry into a return to obtain the information and evidence needed to make a decision on the correct amount due:

- If necessary, Revenue Scotland can use its investigatory powers, such as the power to obtain information and documents from taxpayers and third parties or to inspect business premises of taxpayers and third parties to obtain the information and evidence required to decide the amount of tax due.
- Once a decision has been reached, the enquiry is completed when the taxpayer is informed in writing in a closure notice which sets out the conclusions of the case. If, as a result of the enquiry, additional tax and/or penalties are due, Revenue Scotland must amend the tax return and notify the taxpayer of any additional tax due and any penalty.
- Any decision to increase the charge to tax made by Revenue Scotland when concluding an enquiry may be challenged by the taxpayer either by requesting a review of the decision or by appealing to the Scottish Tax Tribunal. Requesting a review does not preclude a later appeal to the Tribunal.

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The statutory duties and powers of Revenue Scotland are set out in the RSTPA. This includes equipping the organisation with various investigatory powers to make enquiries into submitted tax returns. Revenue Scotland uses a risk-based approach in its compliance activity and works closely with RoS and SEPA to fulfil its statutory duties efficiently and effectively to protect Scottish tax revenue. In cases of suspected tax avoidance the General Anti Avoidance Rule (GAAR) gives Revenue Scotland power to counteract a perceived tax advantage from tax avoidance arrangements that are artificial.

The organisation also has a statutory responsibility to apply penalties to encourage timely payment of taxes and compliance. Penalties can be levied in circumstances including, but not limited to: where a return has been submitted late; where tax has been paid late; where a tax return contains an inaccuracy; and where tax has been under-declared. The legislation provides for a basic flat rate penalty of £100 for a late return and escalating penalties for longer delays.

Enquiries

As noted above, Revenue Scotland has the power to enquire into anything contained or required to be contained in a tax return. Formal notices are issued to the taxpayer on the opening and closing of an enquiry. There is a statutory timescale for completing enquiries of three years (1,095 days) from the date the return in question was required to be filed (or if filed late, was actually filed).

KPI 4: Average length of enquiries gives an indication of the standard of service to taxpayers. The target for the year was 548 days (18 months). This ambitious target is broadly half the statutory timescale, which reflects the commitment to concluding enquiries in a timely manner, providing minimal uncertainty for the taxpayer. In 2018-19 the average length of enquiries for the year was 372 days. The enquiries undertaken in relation to the different taxes involve differing levels of complexity. The positive figures reflect sustained management focus on enquiry work.

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The table below gives the mean number of days between enquiries being opened and closed.

	2018-19	2017-18
Mean (days)	372	209
Number of enquiries closed during the year	31	64
Number of enquiries open at 31 March 2019	45	23

Compliance Yield

KPI 3: Tax secured through Revenue Scotland's compliance activity provides an indication of the extent to which the right amount of tax has been collected from the full taxpayer base over the course of the year, but is not a direct measure of that. This key performance indicator measures additional revenue raised as a direct result of determinations, assessments, adjustments and penalties where non-compliance has been identified. This has generated £0.36m of tax in the year 2018-19 (2017-18: £1.162m) and £0.66m of paid penalties and interest (2017-18: £1.204m), giving a total direct compliance yield of £1.03m (2017-18: £2.366m). Whilst the revenue secured through compliance activity has been lower in 2018-19 than in the previous year, this figure does not recognise the significant longer running cases underway, where that yield will not be recognised until the end of the enquiry, and when appeals and further potential litigation have been exhausted. Year-on-year comparisons are therefore difficult due to the unpredictability of the yield arising from a given portfolio of compliance work.

Collaborative Working

Revenue Scotland works in collaboration with partner agencies, sharing information, intelligence and knowledge regularly with HMRC and Welsh Revenue Authority (WRA) within the legal gateways (RSTPA s 15 (3) (d) and (e)) and Information Sharing Agreements, for the purpose of civil or criminal proceedings.

In addition, Revenue Scotland is a Partner Agency in the Multi Agency Tasking and Delivery Group based at Gartcosh and run by the Assistant Chief Constable of Police Scotland and attended by their Scottish Partner Agencies including, SEPA and HMRC. Revenue Scotland seeks the advice and support of the partner agencies to ensure the most appropriate sanctions are applied, ranging from civil penalties to criminal prosecutions. Revenue Scotland does not have criminal powers and is not a specialist reporting agency. Cases involving tax fraud are reported to Police Scotland and Revenue Scotland provides support to assist these criminal investigations.

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Managing disputes

There are three main routes for taxpayers, agents and other members of the public who wish to dispute an action or decision by Revenue Scotland.

Complaints

Complaints are expressions of dissatisfaction about the organisation's action or lack of action, or about the standard of service provided by Revenue Scotland or on our behalf. They are distinct from tax disputes. Where complaints are received we seek to learn from these to improve our operational procedures and processes.

Revenue Scotland's complaints handling procedure was last reviewed in August 2018 and reflects Revenue Scotland's commitment to valuing complaints. It seeks to resolve taxpayer dissatisfaction as close as possible to the point of service delivery and to conduct thorough and impartial investigations of complaints so that, where appropriate, evidence-based decisions can be made on the facts of the case. The procedure introduces a standardised approach for complaints handling which complies with the Scottish Public Services Ombudsman's (SPSO) guidance. This allows for two opportunities to resolve complaints internally: stage 1 – frontline resolution; and stage 2 – investigation.

KPI 10: percentage of complaints closed within 20 working days, measures whether or not Revenue Scotland is promptly responding to complaints and the target is for 100% to be closed within the 20 day period. This year Revenue Scotland received three complaints, all of which were closed within the 20 day target period. In addition, one complaint was escalated to the Scottish Public Services Ombudsman during 2018-19. A report has subsequently been submitted to the Scottish Parliament on 24 July 2019 detailing the findings and outcome of the complaint.[6] We fully accept the recommendations made by the SPSO and are working to implement the required improvements.

Tax Disputes – Reviews and Appeals

Revenue Scotland aims to minimise tax disputes by providing clear information and guidance to taxpayers and having robust decision making processes in place. In the event of a dispute a taxpayer may request an internal review of a decision, request – or agree to – mediation, or appeal a decision to the Scottish Tribunals. Section 233 of the RSTPA sets out the decisions which are, and which are not, reviewable and appealable.

The Tax Chamber of the First-tier Tribunal for Scotland (FTTS) decides appeals against Revenue Scotland decisions, and the Upper Tribunal (UT) decides appeals on a point of law from decisions of the FTTS.

An appeal may be made regardless of whether or not a review has been sought or mediation entered into.

6 https://www.spso.org.uk/decision-reports/2019/july/decision-report-201802287-201802287

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Tax Disputes

KPI 6: Percentage of appealable Revenue Scotland decisions which are upheld to conclusion relates to tax disputes, and includes reviews and appeals to tribunals. The target for this KPI is that 50% are upheld and the outcome for 2018-19 was that 56% of decisions were upheld. The majority of the 510 cases were reviews, with a small number of cases (six) concluded by the Tax Chamber of the First-tier Tribunal for Scotland. A large percentage of reviews arise from the automatic imposition of late filing and late payment penalties. The penalty cases that are cancelled, or varied on review reflects Revenue Scotland subsequently being presented with evidence of reasonable excuse or special circumstances.

Reviews

Taxpayers and their agents have the right to request that Revenue Scotland reviews any decision that affects whether a person is liable to pay tax, the amount of tax due, the date the tax is due and payable and the imposition of a penalty or interest. Reviews must be concluded within the statutory timescale of 75 days.

KPI 5: Percentage of reviews concluded within statutory timescales (75 days) gives an indication of whether or not Revenue Scotland is providing an efficient and reliable service by responding to requests for reviews within the statutory timescale. KPI 5 has been reframed since the previous corporate planning period which gave the number of disputes and average time to resolution. The target for this KPI is that 100% of reviews are concluded within the statutory timescale; for 2018-19 Revenue Scotland did not meet this target with 10% of cases not being concluded within the 75 day period.

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There was a significant increase in review requests during the period, and an increase in the complexity of some cases. 583 review requests were received in 2018-19, compared with 290 requests in 2017-18. Requests for reviews of penalties assessed against lease review returns which had not been received account for 43% of review requests in the period. In line with legislative requirements, these returns became obligatory in 2018.

Revenue Scotland has introduced a new, improved process for carrying out reviews and recruited additional staff. This has resulted in a transitional period which has meant a short term reduction in efficiency during quarter one and quarter two. Performance in this area was closely monitored by Senior Management and the Board and action taken to improve results. Since new processes and staff have become well integrated, the second half of the year saw a steady improvement with 94% and 100% of reviews concluded within the timescale in quarters three and four respectively. There was a corresponding increase in the number of reviews concluded in the second six months of the year, supporting a conclusion that since the improvements have 'bedded in' Revenue Scotland is now well placed to continue to handle increased volumes of cases within the statutory timescale.

Appeals

As an organisation which regularly reviews its working practices to support operational improvement, Revenue Scotland welcomes the clarification that the tribunals' decisions provide in relation to the application of legislation.

During the 2018-19 reporting period, 17 appeals were initiated in the Tax Chamber of the First-tier Tribunal for Scotland. The Tribunal made decisions on six appeals, two of which related to notices of appeal submitted in 2018-19. All of those decisions resulted in dismissal of the appeals in question. At the end of March 2019, 11 cases were still in progress.

One case progressed to the Upper Tribunal for Scotland in 2018-19 and is still in progress. Two cases which progressed to the Upper Tribunal in 2017-18 were still in progress at the end of the financial year. No decisions were issued by the Upper Tribunal in 2018-19.

Revenue Scotland did not receive any requests for mediation in 2018-19.

More information about the Tribunals and the decisions taken can be found at: www.taxchamber.scot

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2. INVESTING IN OUR PEOPLE

The second strategic objective in our Corporate Plan, 'Investing in our People' reflects the high value the organisation places on the skills, capability and engagement of the people in the organisation, and recognition of the need for investment to develop and support a highly skilled and engaged workforce, upholding the required standards of professionalism and integrity.

The delivery of this strategic objective is primarily measured by the organisation's performance against the five underlying objectives set out in the Corporate Plan and through KPI 7. The five underlying objectives are:

- Maintain and enhance a highly skilled workforce.
- Support staff to understand their contribution to the wider work of Revenue Scotland.
- Maintain a culture where staff feel their contribution is valued and that they have a future in the organisation.
- Encourage staff to identify with Revenue Scotland's strategic objectives and contribute actively to their achievement.
- Strengthen our leadership capacity.

Revenue Scotland's People Strategy reflects and underpins delivery of Strategic Objective 2. The People Strategy, launched in 2017, has five themes:

- Leadership;
- Our Jobs;
- Workforce;
- Culture; and
- Capability.

In 2018-19 the focus has continued to be on improving learning and development opportunities and this year we completed the design of our new, sustainable model to develop a bespoke Scottish Tax Education Programme (STEP) to build our tax specialist competencies. We delivered a successful pilot and rolled out the first of the programme's modules.

We held our second successful annual staff conference in June 2018 with a further all staff event in January 2019. The events engaged staff in work to develop our inclusive culture, build capability and resilience, and identified our model to lead and manage change. The People Strategy programme prioritised our commitment to develop a fair and inclusive culture through delivery of an independently commissioned Fair Treatment at Work project. The project supported us to identify need and develop an action plan through extensive staff engagement and we are now in the delivery phase with workshops rolled out to support leaders, line managers and all staff to develop awareness of how to recognise and address bullying and harassment in all its forms.

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Strategic workforce planning has been implemented thereby improving our ability to plan workforce needs, develop recruitment strategies and improve staff work/life balance through efficient resourcing. We have delivered successful recruitment campaigns in 2018-19 and implemented a comprehensive four week induction programme for all new staff.

KPI 7: Employee engagement index is calculated using the results of the annual Civil Service People Survey (CSPS)[7]. The index is shaped by the staffs' experience at work as shaped by the nine themes in the survey, 'My Work'; 'Organisational Objectives and Purpose'; 'My Manager'; 'My team'; 'Learning and Development'; 'Inclusion and Fair Treatment'; 'Resources and Workload'; 'Pay and Benefits' and 'Leadership and Managing Change'.

In 2018 we achieved the target for this KPI which is that Revenue Scotland scores within the top 25% of all Civil Service organisations. Revenue Scotland was placed 22nd out of 102 organisations with an engagement index of 67% and with a high completion rate of 93%. In addition, we scored the second highest engagement index in Scotland. This strong performance is an improvement on 2017-18 where the engagement index score was 62%, and reflects the significant investment in recruitment, learning and development and organisational culture. The engagement index score aligns closely with Revenue Scotland's objectives and provides evidence to assess delivery of the Revenue Scotland People Strategy. The wider 2018-19 results from the survey demonstrate continued improvement across all elements of the Revenue Scotland People Strategy, with the greatest areas of progress including 'Leadership and Managing Change', 'My Manager' and 'Inclusion and Fair Treatment'.

7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764326/Civil_Service_People_Survey_2018_-_Full_Technical_Guide.pdf

Case study
Investing in our people

Objective:

Since it was established, Revenue Scotland has taken the time to invest in its workforce, recognising the importance of developing and strengthening skills to increase capability within the organisation. In the last 12 months the focus of this work has been to create an education programme specifically tailored to the development of specialist tax skills, better equipping staff with what they need to efficiently and effectively administer and collect the devolved taxes.

Action:

The creation of the tailored education programme was led by the Organisational Development team, working in partnership with staff across Revenue Scotland to accurately identify training and development requirements and then build a capability framework.

The effort resulted in the Scottish Tax Education Programme (STEP), an initiative which builds on the organisation's established Learning and Development Model, using in-house expertise to coach staff and create bespoke learning where the knowledge and understanding is unique to Revenue Scotland.

As the development of STEP progressed, the Organisational Development team collaborated with an expert learning partner, co-creating and successfully testing the first training module *Core Functions of Revenue Scotland*. Subject matter experts and Training Champions were appointed to the programme and worked with the learning partner to develop creative and innovative learning materials before the Training Champions completed a course giving them the skills required to deliver the course module to staff more widely in the organisation.

Once the module was delivered and the learning materials completed, the results fed into the longer term development of STEP.

Outcome:

The Core Functions of Revenue Scotland module was delivered to 50% of staff during winter 2018. Of the staff who took part, 80% reported that their knowledge had increased. The percentage of positive feedback from attendees informed the decision by Revenue Scotland to commit to developing the STEP programme over a three-year period.

Staff participating in a development workshop

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3. REACHING OUT

In delivering its statutory functions as set out in the RSTPA, we aim to build on our reputation as an accessible, collaborative and transparent public body, keen to learn from others and share its experience and expertise.

The building of Revenue Scotland's reputation in these areas is measured by the organisation's performance against the five underlying objectives set out in the 'Reaching Out' section of the Corporate Plan:

- Provide support to the Scottish Government and others on tax policy matters;
- Provide support to the Scottish Fiscal Commission in its tax forecasting role;
- Support current and emerging public bodies in Scotland and beyond;
- Continue to engage with the wide range of skills and experience that exists within the Scottish tax community; and
- Keep up to date with innovative developments in tax administration in other countries.

Provide support to the Scottish Government and others on tax policy matters

During the reporting period, a project board was set up to assist with the operational implementation of three legislative changes – First-Time Buyer relief, an increase to the rate of ADS and changes to Group Relief and Share Pledges. Board members comprised internal and external stakeholders, enabling the group to draw on a diverse range of experience to ensure the smooth delivery of the operational changes required.

We strengthened our engagement with Scottish Government Ministers during 2018-19, with the establishing of regular meetings between the Chair and Chief Executive and the Minister for Public Finance and the Digital Economy. Political engagement with MSPs included the launch event for the 2017-18 Annual Reports and Accounts in October 2018 which attracted cross-party representation. The Chief Executive also attended a round-table evidence session held by the Scottish Parliament's Finance Committee as part of its preparatory work to scrutinise the Scottish Government Budget, with the session focusing on the Fiscal Framework.

We responded to a number of Parliamentary Questions and enquiries about the devolved taxes from the Scottish Parliament's information and research team. We also conducted our annual MORI poll of MSPs which showed a steady increase in awareness of, and positive engagement with, the organisation among elected representatives.

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We held LBTT forums in Edinburgh and Aberdeen, with the latter enabling Revenue Scotland to consider issues common to, and to engage with, a different demographic of taxpayers and agents compared with those who normally attend the Edinburgh forums. An SLfT forum was also held in Perth, providing a platform to engage with and hear views from Scotland's landfill sector. Across the three events, around 160 stakeholders attended. During this year we also held three events, in Aberdeen, Edinburgh and Glasgow to consult with British Sign Language Users on their experiences to inform the development of our first British Sign Language Plan.

Wider engagement beyond the forums during 2018-19 included staff attending and presenting at the Scottish Paralegal Association conference in Dundee, visits to specific solicitor and law firms to hold support sessions with solicitors and agents who were consistently using the Revenue Scotland mailbox service for advice and guidance. Staff delivered tailored presentations based on detailed analysis of the queries received.

On 1 April 2018 the first of the LBTT three-year lease returns became liable. Revenue Scotland carried out communications activity to raise awareness among commercial LBTT tenants leading up to and beyond this date, including:

- a press release posted on the Revenue Scotland website and issued to stakeholders and trade press;
- a new dedicated section on our website including how to and legislative guidance;
- a new information leaflet located on the Forms and Factsheet page of the website, with hard copies distributed at Revenue Scotland and external stakeholder events;
- Twitter posts were issued, including promotion of the stakeholder event in January, website updates and the publication of the new guidance and information;
- three new YouTube videos were produced including a general overview explaining taxpayer obligations to submit the returns and two educational videos targeting agents and tenants on how to submit a return;
- blogs and online article by legal firms and stakeholders including the Chartered Institute of Taxation, Brodies, Anderson Strathearn and Shepherd and Wedderburn; and
- LBTT staff also attended and presented at an agricultural forum to provide tailored information about the LBTT lease requirements to agricultural tenants.

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The activity above supported staff dealing with the 10,777 calls made to the support desk in 2018-19. This was up by 27% compared to 2017-18 (8,504 calls) and most of the increased call volume related to the three-year lease review returns. In January 2019, the Revenue Scotland Board held a strategic engagement session with the Law Society of Scotland LBTT Working Group as part of its outreach work. The session covered topics including the three-year lease reviews, an update on the SETS 2 system and engagement between Revenue Scotland and the Scottish Government on the devolved taxes.

Provide support to the Scottish Fiscal Commission (SFC) in its tax forecasting role

Revenue Scotland makes data on the devolved taxes publicly available, for example through the publication of LBTT and SLfT revenue on a monthly and quarterly basis.

We also provide information about the devolved taxes to the SFC to support it in performing its function to independently forecast Scottish revenue from the taxes. During the 2018-19 period the Revenue Scotland Statistics and Management Information team held meetings with SFC staff and provided detailed information. This included a range of reports, all of which are available publicly, including background data for the publication of LBTT forecasts and data to help the SFC provide a costing for changes to Group Relief.

Support current and emerging public bodies in Scotland and beyond

Since it was established, Revenue Scotland has engaged regularly with other public bodies in Scotland, the rest of the UK and beyond, and this continued during 2018-19. This support has included visits from the Welsh Revenue Authority and engagement with Social Security Scotland and other Scottish public bodies on a range of corporate issues including risk management, business planning and equalities and diversity. This is a key way for Revenue Scotland to both share and learn from best practice and to discuss common issues.

Continue to engage with the wide range of skills and experience that exists within the Scottish tax community

Revenue Scotland has a wide-ranging engagement programme to share and learn from organisations and individuals across Scotland's diverse tax, financial and legal sectors. During 2018-19 staff attended events including the Inspiring Women in Business conference, the David Hume Institute event 'The role of the SFC and the OBR in Scotland's evolving fiscal landscape' and the Chartered Institute of Taxation (CIOT) annual Scottish conference.

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Keep up to date with innovative developments in tax administration in other countries

Revenue Scotland established the The British Isles and Northern Ireland Tax Authorities Forum to enable the sharing of knowledge, experience and opportunities among tax authorities for the benefit of taxpayers.

Membership of the group comprises HMRC, Isle of Man Government, the Northern Ireland Executive, Revenue Scotland, the States of Guernsey Taxes Office, the States of Jersey Taxes Office, and the Welsh Revenue Authority. During the 2018-19 period, the forum met twice, with meetings held in Jersey and London.

Scottish Landfill Communities Fund (SLCF)

The SLCF was established to provide funding for community or environmental projects in recognition of the impact of landfill activity on communities.

The SLCF continues to function well. Approved Bodies continue to receive contributions, enrol projects and ensure that projects are delivered successfully.

This year, Scotland's communities and environment benefitted from a further £9.2m of projects (356 projects) being enrolled that will be delivered over the coming year. This means that in total over the last four years that the SLCF has been operational, £34.3m has been paid into the fund and £27m of projects have been funded.

The value of qualifying contributions made to the fund was almost £1m less than last year. This is a trend that is forecast to continue with reduction of waste to landfill and an upcoming ban on biodegradable municipal waste to landfill in 2021. However, the value of funds contributed in 2018-19 (£7.7 m) was significantly higher than the £6.2m forecast in the Scottish Government Draft Budget 2018-19 so the reduction of contributions may be slower than predicted.

Case study
Reaching out

Objective:

As Scotland's tax authority, it is important that Revenue Scotland ensures that its tax services are open and accessible so that all taxpayers can pay the right amount of tax at the right time regardless of disability or impairment.

Action:

As part of the work to meet these obligations, a project was established to develop a Revenue Scotland British Sign Language Plan, one of the legal obligations required of public bodies under the Act. The legislation places responsibility on organisations to set out how they cater for the needs of the BSL community to access public information and services.

During the 12-month period, Revenue Scotland conducted extensive research to inform the development of a draft BSL plan. Once the drafting was completed, the organisation arranged a series of events and activities to raise awareness of the draft plan and to gather views from Scotland's BSL community on its effectiveness in meeting the needs of BSL service users.

The engagement activities included stakeholder workshops at locations across Scotland, social media to engage with online BSL communities, and also partnership working with BSL stakeholder groups to share the draft plan and actively seek feedback.

Outcome:

The engagement and outreach activity proved to be effective, raising awareness of the draft plan so they could provide informed feedback.

The draft plan itself was well-received within BSL community groups and organisations, and the feedback received was used to shape the document so that it was fit for purpose.

Revenue Scotland's BSL plan was published in January 2019.

A still from Revenue Scotland's YouTube channel which has seen an increasing number of videos catering for BSL service users.

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4. LOOKING AHEAD

The final strategic objective in the Revenue Scotland Corporate Plan, 'Looking Ahead' aims to plan and deliver change and improvements to our systems and processes flexibly, on time and on budget.

The delivery of this strategic objective is primarily measured by the organisation's performance against the three underlying objectives set out in the Corporate Plan and through the KPIs. The underlying objectives are:

- Provide the organisation with flexibility and resilience by investing in staff skills and knowledge.
- Fostering a culture of continuous improvement to enable us to adapt and respond to the need for change.
- Put in place proportionate resources for the challenge ahead.

Optimising service delivery

Efficiency

KPI 11: Administrative cost of tax received against OECD benchmark is calculated as Revenue Scotland's annual resource costs less any programme costs divided by total tax and penalties reported.

This KPI measures the administrative cost of tax received[8] and operates to a target of 0.73% which is the most recent benchmark calculated by the OECD for taxes collected in the UK – the median of all OECD countries is 0.87%. In 2018-19 Revenue Scotland's administrative costs were 0.73%, an improvement on the 0.78% achieved in 2017-18.

This demonstrates Revenue Scotland's commitment to work in an efficient manner making use of technology where possible to achieve this (in particular through the high rate of electronic tax returns). In future, the Leading, Enabling, Ambition, Performance (LEAP) programme which includes the replacement SETS system will further streamline processes and improve efficiency in tax collection (more detail about the programme is discussed below).

Leading, Enabling, Ambition, Performance (LEAP) Programme

The programme to implement the new tax collection and management system gathered pace in early 2018-19, with the procurement exercise to identify the new supplier reaching its conclusion in the summer, resulting in Revenue Scotland entering into contract with Northgate Public Services Ltd.

The 'Discovery Phase' of development with the supplier began in December, drawing on subject matter experts from across the business to inform decisions about the design and functionality of the new system. Independent assurance activities have provided our Programme Board, Senior Leadership Team and the Revenue Scotland Board with the confidence that they need that the programme is on track to deliver. We took on board feedback from our Digital First Discovery assessment in December to bring on board User Research and Content Design expertise, which has contributed significantly to, what early feedback suggests, is a more user friendly system that meets the high standards expected of digital public services in Scotland.

8 This is the total running costs for all aspects of Revenue Scotland functioning as a percentage of the total money transferred into the Scottish Consolidated Fund plus the Scottish Landfill Communities Fund and not 'clawed back'.

Case study
Looking ahead

Objective:

To design and implement an enhanced online tax payment system to collect and manage Scotland's fully devolved taxes in the long-term.

The Scottish Electronic Tax System (SETS) is due to be replaced when the existing contract expires in August 2019. During the reporting period, the project team leading the work within Revenue Scotland had to complete a rigorous procurement process to appoint a suitable supplier for the system and then define and design a replacement system with enhanced functionality, usability and improvements to back office processes.

The team also had to establish a detailed project plan and timeline to ensure the new SETS was implemented successfully.

Actions:

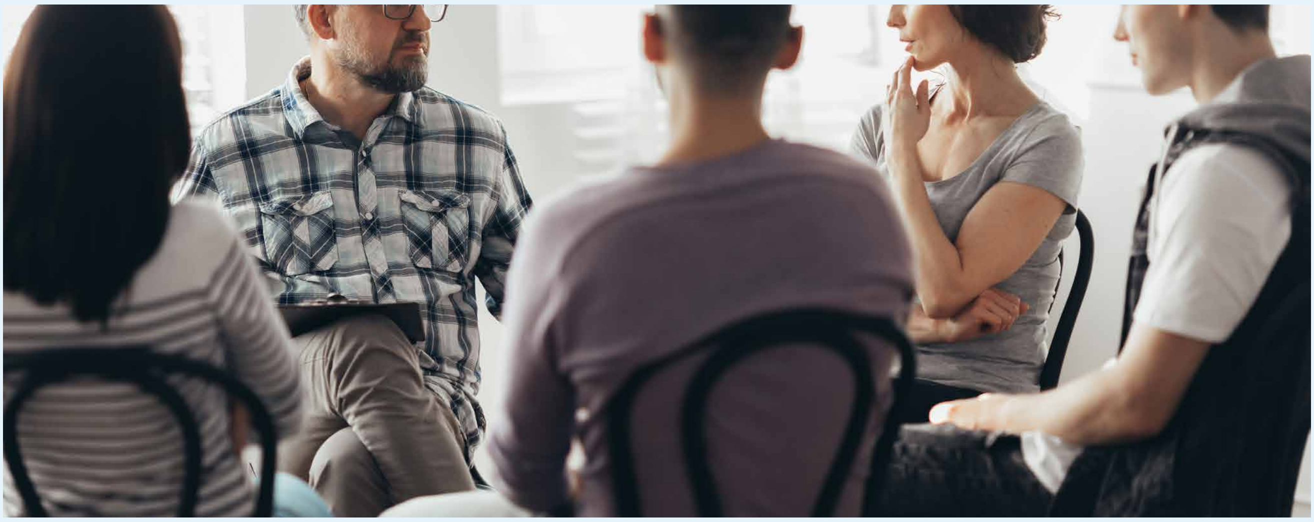
The project team conducted a rigorous public procurement exercise to find the most suitable and cost-effective supplier. Northgate Public Services Ltd were successful and entered into a contract with Revenue Scotland in September 2018.

The project team worked closely with Northgate and, through working groups, events and one-to-one engagement, interacted directly with end users to design a more efficient and effective system. Digital and online experts conducted an independent assessment of the proposed system in late 2018 and shortly afterwards the project team recruited a user researcher and content design expert to examine and assess in finer detail how the existing system was being used, feeding the findings into the development of the new platform.

Throughout the 12-month period the project team successfully adhered to the stringent governance arrangements necessary to manage a large-scale piece of work. This included independent assurance processes to assure the Project Board, Revenue Scotland Senior Leadership Team and Board that the new system was on track and nearing successful completion.

Outcome:

Early feedback about the new, enhanced SETS system indicates that it will be fully functioning for taxpayers and agents when it becomes operational this year. Early analysis shows that there will be significant improvements to internal processes, with better flows of work through the system and more effective ways to communicate with taxpayers about individual cases and issues.



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The new system will bring a range of enhancements for Revenue Scotland's management of the devolved taxes and is expected to introduce a number of improvements for external end users, such as accurate balances on transactions thanks to real-time updates.

Following delivery of the internal and external functionality, deployed in two phases, Revenue Scotland's internal users will benefit from:

- better workflow and case management, which will allow teams to manage their workloads and prioritise much more easily;
- improved communication with taxpayers/agents thanks to secure messaging that can be assigned to particular returns; and
- a financial management application that removes the need for the manual workarounds and reconciliation work that our Finance and Tax Operations team have had to develop to maintain our record of payments since 2015.

The nurturing of a continuous improvement culture in Revenue Scotland will ensure that the organisation constantly challenges itself and engages external end users to refine the system and capitalise on the opportunities the new system presents.

The first phase went live successfully in July 2019. Within the first 3 weeks of launch, over 2,600 individual accounts were active online and over 9,000 returns were filed. Phase 2 will follow early next year, and thereafter we will look to implement a continuous improvement approach underpinned by regular software developments.

Legislative Changes

Air Departure Tax

Air Departure Tax (ADT) is designed to replace Air Passenger Duty (APD) in Scotland. Legislative competence for ADT was devolved by the Scotland Act 2016, enabling Scotland to make its own arrangements for the design and collection of its replacement tax. The Air Departure Tax (Scotland) Act 2017 made provision for such a tax receiving Royal Assent on 25 July 2017. However, in November 2017 the Scottish Government and UK Government agreed that it would not be possible to introduce the tax at the beginning of April 2018.

As reported in the *Revenue Scotland Annual Report and Accounts – Resource Account 2017-18* Revenue Scotland previously undertook a programme to prepare for the implementation of ADT in Scotland. The knowledge, experience and internal processes developed during this programme remain valuable and will support future implementation of the tax. However, with the development of the new Scottish Electronic Tax System (SETS) in 2018-19, which went live in July 2019, the direct benefits from Revenue Scotland investment in the development of the original SETS system to incorporate ADT will not be realised. The learning, however from this process can be applied to future developments of the new SETS system when required.

In April 2019, the Scottish Government announced that the implementation of the tax would be further deferred beyond April 2020 pending resolution of issues raised in relation to the exemption for flights departing from the Highlands and Islands. In the meantime, the existing UK tax, APD will continue to apply to flights departing from Scottish airports, and HMRC will continue to have responsibility for administering APD in relation to Scottish flights.

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Scottish replacement for UK Aggregates Levy

Aggregates Levy is an environmental tax that was introduced in 2002 to reduce the extraction of fresh aggregate (rock, sand and gravel used as bulk fill in construction) and encourage recycling and use of by-products from other industrial processes. It has not been reviewed since its introduction, but following the conclusion of litigation on the legality of the levy in February this year, the UK Government announced a comprehensive review of the levy, and confirmed its commitment to devolving the levy to the Scottish Parliament. The review is due to complete at the end of 2019. The review – and any associated changes that may be made to the UK tax – may have an impact on the timetable for the introduction of a devolved tax.

Revenue Scotland will work with Scottish Government officials on a Scottish replacement for UK Aggregates Levy as we did for Air Departure Tax and will continue to liaise with Scottish Government officials as progress unfolds and thinking emerges.

Cross-cutting matters

Risk Management

Revenue Scotland operates under an established Risk Management Framework (the Framework) which aligns with the best practice guidance presented through the Scottish Public Finance Manual and Scottish Government's Risk Management Guidance document.

The approach to Risk Management has been in place throughout the reporting year and significant activity by the Board and senior management has focused on ensuring that the approach is robust, fit for purpose and responsive to the tax authority's operational needs. The approach has been designed to manage risk to a reasonable level rather than to eliminate all risk.

The Framework was comprehensively revised in December 2018 in order to ensure that the risk management process remained accurate (in terms of defining the organisation's risk profile), informed, accessible, engaged, effective and moreover proportionate given the scale of Revenue Scotland as an organisation and its associated risk profile. During this process all defined risks were considered alongside any gaps, or emerging risk areas, and the outcome of the review process was reported to the Board who approved a revised risk profile and the associated individual risks.

Key elements of the approach are:

- A requirement for the Chief Executive and Senior Leadership Team (SLT) to have effective mechanisms in place for assessing, monitoring and responding to any risks – this includes considering the risk register regularly and risk owners reviewing risks monthly;
- The Audit and Risk Committee of the Board receiving and reviewing in depth updates on the application of the Framework and on the assessment of corporate risks at each of its meetings; and
- The Board retaining ultimate responsibility for overall ownership of risk, overseeing the Risk Management Framework and reviewing the Corporate Risk Register at least twice a year.

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Since December 2018, the Corporate Risk Register has highlighted ten key risks for the organisation covering a range of issues. In the table that follows, we have outlined each of the ten strategic risk themes and detailed the key mitigating actions against each taken in the year.

Risk No	Risk Name	Key Mitigating Actions in 2018-19
1	Legislative and regulatory framework for Devolved Taxes	1. We developed a plan with the Scottish Government around a new legislative vehicle in order to request, control and manage future legislative changes to the wholly devolved taxes. 2. We met regularly throughout the year with the Minister for Finance and Digital Economy to exchange information and discuss opportunities and challenges alike. 3. We worked closely with Scottish Government colleagues to promote an awareness and understanding of tax administration and management and Revenue Scotland operational requirements. We also developed a joint framework of operation between Revenue Scotland and Scottish Government Tax Directorate.
2	Resourcing and Capability Development	1. We recruited several senior tax staff into Revenue Scotland during 2018-19, enhancing the organisation's capacity and specialist capability further. 2. We strengthened the Strategic Workforce Planning Model for Revenue Scotland – aligning with the People Strategy and delivering against the vision and objectives therein. 3. We invested in, and delivered a leadership programme for Band C group – with plans to extend this to further groups in 2019.
3	Digital Technology	1. We introduced improved availability and capacity monitoring of our systems, and improved our monitoring of established service level agreements. 2. We introduced better supplier, incident and problem management processes. 3. We introduced a new IT Governance Board to manage changes to ICT infrastructure and promote innovation.
4	Cyber Security	1. We achieved Cyber essentials accreditation. 2. We improved our security monitoring of our systems and undertook annual penetration tests on all critical systems. 3. We introduced a policy on cyber defence and realised cyber security responsibilities at board level – in addition we appointed a cyber security specialist within the IT team.
5	Management of Business Critical Relationships	1. Regular engagement with key stakeholders and delivery partners was undertaken in 2018-19. 2. We undertook a formal review of the functions delegated to SEPA and RoS by Revenue Scotland. 3. We also reviewed our Shared Service agreements and relationships with key Scottish Government partners.

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Risk No	Risk Name	Key Mitigating Actions in 2018-19
6	Risks associated with Governance and Compliance	1. We established an Information Governance Group to oversee the management of information governance matters, the information assets register and information asset owners. 2. We considered changes to the Revenue Scotland governance framework, including to the Scheme of Internal Delegation and tax governance arrangements. 3. We undertook regular reviews of the Revenue Scotland Assurance Map and associated Controls.
7	Insufficient Funding	1. We ensured that accurate and timely financial performance information was reported to senior management and the Board. 2. We reviewed our procurement procedures and introduced a new approach to support better management and VFM. 3. We actively engaged with the Scottish Government Exchequer on budget performance, needs and revisions.
8	Failure to provide quality authoritative data	1. The planned introduction of the new SETS system (July 2019) will improve data quality and management issues and deliver better Management Information (MI). 2. We will also see a new finance application brought on line to replace the existing external finance system (SEAS). 3. We published a Data Strategy for Revenue Scotland and built in additional quality assurance time to Business processes.
9	Failure to deliver LEAP Programme objectives	1. We put in place external assurance processes and considered anticipated timescales, solution and delivery (OCIO Gate 3). 2. We ensured that senior leadership and the Board had oversight of key strategic decisions. 3. We introduced an Agile approach to programme management and undertook regular evaluation of the project against established criteria.
10	Resilience	1. We tested our Business Continuity Planning (BCP) arrangement through an established programme of scenario tests and Disaster Recovery testing. 2. We regularly reviewed and updated the BCP and and Incident Management plans. 3. We put in place additional mitigations around processes and people.

During the 2018-19 period, the Board, Audit and Risk Committee, and Senior Leadership Team frequently considered updates to the risk register. From December 2018, these reviews focused on the following specific risks:

- Capability development;
- Corporate governance and compliance; and
- Programme delivery risks, such as failure to deliver service continuity through the introduction of SETS2.

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The Board also assessed the extent to which risk management processes were embedding themselves into the organisation in terms of the Risk Maturity model contained in the Framework. The exercise found that the organisation was "defined" and that the next phase in its development would be to continue to focus on making the Framework an integral part of the organisation.

Revenue Scotland also regularly monitors its performance in relation to the KPIs. Regular reporting on these KPIs is integral to the risk management process for the organisation and also monitoring operational performance against targets.

Equality, diversity and human rights

During this reporting period, the Staffing and Equalities Committee has overseen the publication of a comprehensive Equalities Mainstreaming Report[9] covering Revenue Scotland's activity in the period 2016-18.

Revenue Scotland has two equality outcomes which are included in the report:

- All information and external communications provided and delivered by Revenue Scotland are transparent, accessible and easily understood by all service users; and
- Revenue Scotland is an organisation which demonstrates an inclusive culture with all members of staff having clear understanding of and commitment to equality and diversity within the organisation.

The 2018 report details progress against the associated action plan and sets out activity for the period May 2018 to May 2020. The report also includes diversity data for staff.

In addition, in 2018-19, Revenue Scotland developed and published a British Sign Language Plan 2018-2024[10] in consultation with BSL Users. The plan is available in both English and BSL and aligns closely with the British Sign Language (BSL): National Plan 2017 to 2023.[11] As part of the implementation of this plan, Revenue Scotland now has BSL videos explaining the work of Revenue Scotland available on the website and YouTube channel and will be continuing to add to this.

Revenue Scotland is committed to acting at all times in a way which respects and is compatible with the rights guaranteed under the European Convention on Human Rights and the Human Rights Act 1998. Revenue Scotland publishes guidance on taxpayer's rights under Article 6 of the Convention, with regards to penalties. The guidance has been revised in 2018.[12]

Ethical Issues

Staff at Revenue Scotland are civil servants who adhere to the Civil Service Code of Conduct. Staff are expected to carry out their duties with a commitment to the Civil Service core values of integrity, honesty, objectivity and impartiality. Staff must not misuse their official position to further their private interests or those of others; accept gifts, hospitality or other benefits from anyone which might reasonably

9 https://www.revenue.scot/sites/default/files/Revenue%20Scotland%20-%20Equalities%20Mainstreaming%20Report%202018.pdf

10 https://www.revenue.scot/contact-us/british-sign-language-0

11 https://www.gov.scot/publications/british-sign-language-bsl-national-plan-2017-2023/

12 https://www.revenue.scot/sites/default/files/Revenue%20Scotland%20-%20Human%20Rights%20and%20Penalties%20-%20Factsheet.pdf

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be seen to compromise their personal judgement or integrity. All staff undertake annual mandatory training on Counter Fraud, Bribery and Corruption to remind them of their responsibilities in these areas.

Environmental

Revenue Scotland is committed to protecting the environment by working sustainably to minimise its carbon emissions, meet climate change duties and embed climate change action into the organisational culture.

As part of this commitment, Revenue Scotland has three broad climate change objectives. These are:

- to manage and monitor business travel and encourage staff to use the most carbon-efficient method of transport for all work-related travel;
- to minimise waste and reduce Revenue Scotland's paper use, including through encouraging online tax returns; and
- to reduce office energy consumption.

The Revenue Scotland Board is responsible for the scrutiny of environmental policies, strategies and compliance with climate change duties. Revenue Scotland contributes to the Scottish Public Sector Bodies Climate Change report annually.[13] Revenue Scotland is based in the Scottish Government's Victoria Quay building in Edinburgh which means that the majority of its environmental impacts (e.g. heating, lighting, equipment and water) are monitored and included in the Scottish Government's annual climate change report.

Records Management and GDPR

In the run up to the new General Data Protection Regulations (GDPR) coming in to force, Revenue Scotland completed a thorough review of all corporate policies and strategies as well as online guidance, to ensure compliance with the new regulations. Staff undertook training to familiarise themselves with the new rules and will take part in annual refresher training on the subject.

In May 2018 Revenue Scotland submitted their Records Management Plan to the Keeper. Following updates it was resubmitted in April 2019.

Revenue Scotland will use the Progress Update Review mechanism, introduced by National Records of Scotland (NRS) in 2019, to conduct an annual review of the plan until we formally resubmit in 2024.

13 https://sustainablescotlandnetwork.org/reports/revenue-scotland

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Whistleblowing Report

During the reporting period 1 April 2018 to 31 March 2019, Revenue Scotland received no whistleblowing disclosures (see the table below):

Category	Number of disclosures
Number of non-qualifying disclosures	0
Number of qualifying disclosures	0
Number of qualifying disclosures requiring no further action	0
Number of qualifying disclosures requiring further action	0

Investigations

No investigations were carried out in this reporting period.

Actions

No actions were required during this investigations period.

Improvement objectives

No improvement objectives were required during this investigations period.

Elaine Lorimer
Chief Executive of Revenue Scotland and Accountable Officer

September 2019

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The Directors' Report

Revenue Scotland Board 2018-19

In line with paragraph 1 of Schedule 1 to the RSTPA, the Scottish Ministers are responsible for appointing between five and nine individuals to be members of the Revenue Scotland Board. One individual is appointed by Ministers as Chair.

Ministers determine the period and terms of appointment of Board members and may re-appoint individuals who already are, or have been on the Board, subject to evidence of effective performance and to their continuing to have the skills, knowledge and experience required on the Board at the time of reappointment.

Appointments are made following a formal public appointments exercise regulated by the Commissioner for Ethical Standards in Public Life in Scotland.

In the financial year 2018-19 the Board met on nine occasions (2017-18: eight).

In the same period, one Board Member was re-appointed to the Revenue Scotland Board (John Whiting). After the reporting period, in July 2019 two new Board members were appointed, Jean Lindsay and Martin McEwan.

Board Members 2018-19

Dr Keith Nicholson – Chair

Dr Nicholson has more than 30 years' experience in statistical analysis and data modelling. His specialist background is in transactional websites, cyber security and technology. He is also a member of the Scottish Funding Council and Scottish Environment Protection Agency Board. He is also a trustee of the Mey Highland Games.

Lynn Bradley – Chair of Audit and Risk Committee

Lynn Bradley is an accountant with more than 30 years' experience in the Scottish public and private sectors. Previous roles include Director of Corporate Programmes and Performance at Audit Scotland and Chair of CIPFA Scotland. She currently lectures in the Adam Smith Business School at the University of Glasgow and is a member of the Institute of Chartered Accountants of Scotland (ICAS) Audit and Assurance panel. She is also a trustee of Cash for Kids (Radio Clyde) where she chairs the Finance, Audit and Risk Committee.

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Jane Ryder OBE – Chair of the Staffing and Equalities Committee

Jane Ryder is a qualified solicitor and now specialises in corporate governance and regulation across the public, private and third sectors. Previous roles include being the first Chief Executive of the Office of the Scottish Charity Regulator (OSCR) and Deputy Chair of the Seafish Industry Authority. She is currently Chair of Historic Environment Scotland and of the Scottish Poetry Library, and a member of the Scottish Police Authority Board.

Ian Tait – Member of Audit and Risk Committee (left the Committee during the reporting period)

Ian Tait is Director of Network Regulation at the Water Industry Commission for Scotland and an independent member of Ofgem's ESO Performance Panel. A regulatory specialist, he has advised the Scottish Government on the development of regulatory structures. Previous posts include Strategic Planning Manager and Transmission System Manager at Scottish and Southern Energy.

John Whiting CBE – Member of Audit and Risk Committee and Staffing and Equalities Committee

John Whiting is a non-executive director of HMRC and the Taxation Disciplinary Board; until March 2017, he was Tax Director of the UK's Office of Tax Simplification (OTS). Other previous roles include Tax Policy Director of the Chartered Institute of Taxation, many years as a tax partner with PricewaterhouseCoopers and membership of the first-tier Tax Tribunal.

Further information about the interests of Board Members can be found on the Revenue Scotland website (www.revenue.scot).

Co-opted Committee Members 2018-19

Steve Bruce – Member of Audit and Risk Committee (appointed 1 April 2018)

Steve Bruce is a chartered accountant with more than 25 years of experience in external and internal audit primarily in the global financial services sector, and more recently in the charities sector.

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Senior Leadership Team 2018-19

Elaine Lorimer – Chief Executive

Elaine Lorimer has 20 years of experience working at senior management and board level in the civil service in London and, prior to that, in local government in Scotland. She is a Scottish solicitor and public finance accountant.

Stephen Crilly – Head of Legal Services

Stephen Crilly is a Scottish solicitor and is responsible for the legal advice provided to Revenue Scotland. He previously worked within the HMRC Division of the Office of the Advocate General for Scotland in a role which carried out a broad spectrum of advisory and litigation work for HMRC in Scotland.

Andrew Fleming – Head of Strategy and Corporate Functions

Andrew Fleming is responsible for leading Revenue Scotland's strategic and corporate functions. Until July 2016 Andrew was responsible for the implementation of new devolved taxes and oversight of Revenue Scotland's ICT function. He has considerable experience within the Civil Service and particularly in the design and delivery of strategic improvements across a range of public policy areas.

Chris Myerscough – Head of Tax

Chris was appointed as Head of Tax on 22 August 2016, having joined Revenue Scotland as Director of Operations for a temporary six-month period to 30 June 2016. She previously gained 25 years of tax experience at HMRC in various technical, compliance and policy roles.

Further information about members of the Senior Leadership Team can be found on the Revenue Scotland website (www.revenue.scot).

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Statement of the Accountable Officer's responsibilities

Under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, the Scottish Ministers have directed Revenue Scotland to prepare, for each financial year, a statement of accounts in the form and the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Revenue Scotland and of its revenue and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the financial statements;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The Chief Executive of Revenue Scotland is designated as the Accountable Officer for Revenue Scotland by the Permanent Secretary of the Scottish Government, who is the Principal Accountable Officer for the Scottish Administration, in accordance with sections 14 and 15 of the Public Finance and Accountability (Scotland) Act 2000.

As Accountable Officer, the Chief Executive is personally responsible for safeguarding the public funds for which she has responsibility. She is expected to ensure propriety and regularity in the handling of those public funds. The Accountable Officer has a duty to ensure that effective governance and operational arrangements are in place to secure internal control and risk management.

As Accountable Officer, the Chief Executive is personally responsible for ensuring that Revenue Scotland complies with the requirements of the Scottish Public Finance Manual (SPFM). The Chief Executive should act and take steps necessary to ensure that Revenue Scotland corporately acts, in accordance with the principles of the SPFM and the terms of relevant guidance in the SPFM and other financial instructions and guidance issued by the Scottish Ministers.

The Accountable Officer may consult with the Scottish Government's Chief Financial Officer on any aspects of the duties applying to Accountable Officers in the Scottish Administration. The Accountable Officer must consult the Chief Financial Officer on any action which she considers is inconsistent with her duties on financial, regulatory or propriety grounds, and specifically where she seeks written authority from the Scottish Ministers or a direction from the Board of Revenue Scotland.

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In practice, the Chief Executive will delegate authority widely to other employees of Revenue Scotland but cannot, on that account, disclaim responsibility.

The Chief Executive is responsible for informing the Principal Accountable Officer about any complaints about Revenue Scotland accepted by the Scottish Public Services Ombudsman (SPSO) for investigation and about Revenue Scotland's response to any subsequent recommendations from the SPSO.

The accounts have been examined and scrutinised by the auditor appointed by the Auditor General for Scotland. In my role as the Accountable Officer, I am confident that the auditor has been made aware of all relevant information. I have taken all steps required to make myself and the auditor aware of any relevant audit information. Further, I confirm that these annual report and accounts are fair, balanced and understandable, and that I take personal responsibility for them. I also take personal responsibility for any judgements that have been made in their preparation and confirm that these are appropriate.

Governance Statement

In the paragraphs below, I report on the governance arrangements in place within Revenue Scotland.

Revenue Scotland is responsible for the administration and collection of Scotland's wholly devolved taxes. The relevant powers and duties of Revenue Scotland, and of the Scottish Ministers are set out in the Revenue Scotland and Tax Powers Act 2014.

Scottish Ministers are responsible for appointing the Board of Revenue Scotland following a formal public appointment exercise regulated by the Commissioner for Ethical Standards in Public Life in Scotland. Ministers must not direct, or otherwise seek to control Revenue Scotland in the exercise of its functions but they may give guidance. This guidance must be published and laid before the Scottish Parliament unless Ministers consider that to do so would prejudice the effective exercise by Revenue Scotland of its functions.

Scottish Ministers are responsible for setting rates, bands and thresholds relating to the devolved taxes, subject to the approval of the Scottish Parliament.

The Board of Revenue Scotland is collectively responsible for the leadership and direction of the organisation and for ensuring that it carries out its statutory functions effectively and efficiently. It may delegate any of its functions to an individual Board member, a committee of the Board, the Chief Executive, or any other staff member, but it will retain its responsibility for carrying out its function. The Board's work includes, but is not confined to:

- considering the Annual Business Plan and Corporate Plan;
- receiving reports from the Chief Executive on progress around performance against established targets;
- receiving quarterly reports on the financial performance of Revenue Scotland;
- receiving reports from the Audit and Risk, and Staffing and Equalities Committees;
- considering reports in relation to the operation of tax compliance;
- reviewing action on risk management;

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- planning for new taxes and changes to existing taxes;
- reviewing the performance of key business partners; and
- strategy development.

In the course of the year, I can report that the Board actively engaged in a number of relevant matters, including:

- making a number of significant decisions on LBTT and SLfT cases (in line with the Scheme of Internal Delegation);
- oversight of the implementation of the changes to LBTT legislation;
- approving key strategies and policies for the organisation such as the Records Management Plan and Tax Compliance Strategy;
- commissioning a comprehensive review of risk management at the recommendation of the Audit and Risk Committee;
- oversight of the review of delegated functions to SEPA and RoS;
- oversight of the organisation's response to the SPSO complaint and action taken thereafter;
- scrutinising performance of the Scottish Landfill Communities Fund;
- strategic oversight of the SETS replacement programme, LEAP; and
- strategic engagement with key partners and customers.

The Board aims to set an example of good practice in terms of learning and development, and benefits from presentations from and discussions with external presenters. In accordance with good practice, I can report that the Board reviewed its own effectiveness and the Chair has conducted individual Board appraisals.

As the Chief Executive of Revenue Scotland, I am employed by, and accountable to, the Board of Revenue Scotland for the day-to-day running of the organisation and its operational performance.

I have assessed our corporate governance arrangements and confirm that they comply with generally accepted best practice principles and relevant guidance.

Audit and Risk Committee

The Board established an Audit and Risk Committee in March 2015 with a remit to support the Board and Accountable Officer by reviewing the comprehensiveness, reliability, and integrity of the assurances produced in support of financial reports. The Committee fulfils its role through:

- scrutiny of Revenue Scotland's arrangements for risk management;
- regular liaison with internal and external audit, including scrutiny of their plans and reports;
- considering and monitoring of responses to recommendations from internal and external auditors and other bodies;
- review of the governance statements produced by management as part of the financial reporting process; and
- overseeing the financial reporting process.

The terms of reference for the committee are published on Revenue Scotland's website within the Board Standing Orders document (www.revenue.scot).

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Members of the Committee are Lynn Bradley (Chair) and John Whiting. The Committee also has a co-opted member, Steve Bruce. Co-opted members do not form part of quorum and therefore do not have the same rights as Board members who are members of the Committee. The Committee is also attended by the Chief Executive, Head of Strategy and Corporate Functions, the Head of Tax, the Chief Accountant and representatives of internal and external audit as well as other staff members as required.

The Committee met five times in 2018-19 (2017-18: four).

The Committee reviewed its effectiveness using the checklist set out in the Scottish Government's Audit Committee Handbook and found no issues of concern which could affect its normal function.

The Committee has overseen the continuing development of a robust risk management system, leading to a comprehensive review of risk management being proposed to the Board in light of the changes to the Scottish Government's risk management approach. The Committee reviews the full corporate risk register at every meeting, monitors the action plan on risk management and provides feedback to operational management.

The current risk register includes identified high-level risks relating to the impact of legislative changes, organisational capability, learning and development, the replacement of SETS, governance and internal controls, and data quality and management, business continuity, ICT infrastructure, and cyber security.

Within the year 2018-19, significant work focused on:

- **Addressing people capacity and capability issues** with considerable activity focused on recruitment of staff and development and retention of a knowledgeable and skilled workforce who are engaged and motivated to deliver the functions of Revenue Scotland to the highest standards of professionalism and integrity. A key platform for this work is the organisation wide People Strategy, and more recently the development of a bespoke Learning and Development plan. Linked to this has been the promotion of a positive organisational culture to create a supportive and positive working environment.
- **Improving data management and cyber resilience** with work focused on strengthening policies, process and practice and maintaining overall resilience and security.
- **Improving Corporate Governance and internal controls** by ensuring that key governance and internal control processes were in place and being implemented effectively to deliver compliance with our legal duties and the expectations of a public body.
- **Delivery of new Scottish tax management system (SETS)** to ensure the seamless transition from the existing system to the new platform within agreed timeframes.

I have assessed our risk management arrangements and confirm that they accord with the guidance set out in the SPFM. I can report that the overall assessment of our performance has been assessed as "defined" against the Risk Maturity Model provided for in the Revenue Scotland Risk Management Framework. This means that good risk governance is in place across the organisation,

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recognising the considerable improvements introduced during 2018-19 in terms of embedding a sound risk management culture, but that further work is required to continue to develop this work.

Staffing and Equalities Committee

The Board of Revenue Scotland established a Staffing and Equalities Committee in June 2015. The Committee comprises two Board members, Jane Ryder (Chair) and John Whiting, with staff attendees comprising the Chief Executive, Head of Strategy and Corporate Functions, the Head of Tax and the Head of Organisational Development. Individual staff members attend depending on the items being discussed.

The primary objective of the committee is to provide assurance to the Revenue Scotland Board on the establishment and maintenance of an effective framework and systems for the remuneration, performance, evaluation and welfare of staff, including equality and diversity. The terms of reference for the committee are published on Revenue Scotland's website within the Board's Standing Orders document (www.revenue.scot).

The committee met three times during 2018-19 (2017-18: three) providing the Chief Executive with challenge and support in response to delivery progress around the People Survey and related Learning and Development plans. The Committee assisted with planning for our annual Staff Conference as well as measuring progress on People Survey scores. The Committee continued to scrutinise performance against our People Strategy, associated strategic priorities and our Equalities Action Plan, our approach to workforce planning, learning and development, through to the development of the Scottish Tax Education Programme (STEP) programme.

Report on personal data incidents

Revenue Scotland manages, maintains and protects all information according to the requirements of the Data Protection Act and other legislation, notably the RSTPA. The organisation also adheres to its own information policies and government best practice.

In line with the HM Government Security Framework requirements for appropriate security governance structure, Revenue Scotland has introduced an Information Assurance governance structure. The aim is to provide the structured means to consistently identify, prioritise, and manage the risks involved in all business activities. It drives a balance between the cost of managing and treating information risks, and the anticipated benefits that will be derived.

The objectives are to:

- Protect the organisation, its staff and our customers from information risks where the likelihood of occurrence and the consequences are significant;
- Meet legal, or statutory requirements; and
- Assist in safeguarding Revenue Scotland's information assets.

Revenue Scotland has a Senior Information Risk Owner (SIRO) and a number of Information Asset Owners (IAOs), all of whom provide assurance to the SIRO that proper controls are in place.

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The SIRO role is to ensure information security policies and procedures are fit for purpose and are reviewed and implemented across all of Revenue Scotland's business functions. These policies and procedures aim to ensure that the requirements of confidentiality, integrity and availability are maintained.

The IAOs manage information assets to ensure compliance with statutory obligations (such as Freedom of Information (Scotland) Act 2002, Environmental Information (Scotland) Regulations 2004, the General Data Protection Regulation (GDPR) and Data Protection Act 2018, the Re-use of Public Sector Information Regulations 2015) and our own duties under Part 3 of RSTPA on protected tax payer information (PTI). The IAOs are tasked with ensuring they know what information assets they own and what information they handle along with the relative security requirements, sensitivity and importance of each set of information and who we may need to share data with and any protection measures.

In addition, all staff are aware that they need to report any data breaches immediately to Revenue Scotland's IAO and SIRO. They are required to undertake regular training and information sessions.

During the year, there were no Information Commissioner's Office (ICO) Notifiable Incidents. However, a Protected Taxpayer Information (PTI) breach was identified in February 2019. The incident related to a single taxpayer and was reviewed by the Information Assurance Group and assessment by Data Protection Officer (DPO) and SIRO, and a number of actions were agreed and implemented to reduce the risk of a re-occurrence.

Internal Audit

The Internal Audit service is provided by the Scottish Government Internal Audit Directorate (SGIAD). The Audit and Risk Committee reviewed and approved the audit plan produced by SGIAD. Regular updates on progress of this plan were presented by SGIAD at Audit and Risk Committee meetings during the reporting period.

During 2018-19, SGIAD completed the following audits:

- Protecting Taxpayer Information; and
- Enquiries and Penalties.

In terms of the overall assessment, a "reasonable" assurance was given to the audit on PTI and a "substantial" assurance was awarded to the audit on enquiries and penalties.

Follow-up audits were completed on:

- Performance reporting;
- Scottish Landfill Tax compliance; and
- Management of shared services.

No matters of concern were raised.

The SGIAD annual report for 2018-19 rated assurance as "substantial". This is the highest possible rating out of four internal audit assurance categories. This means that SGIAD has provided assurance that Revenue Scotland's controls are robust and well managed.

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External Audit
External Audit is provided by Audit Scotland. Mark Taylor, Director of Audit is appointed under the Public Finance and Accountability (Scotland) Act 2000 to carry out the external audit of Revenue Scotland. During the year, the Audit and Risk Committee scrutinised Audit Scotland's audit plan and received regular updates from them.

Internal Controls
Revenue Scotland has developed a system of internal controls and policies which have been designed to safeguard its assets, data and ensure the reliability of financial records in relation to operational and tax duties. These controls are subject to review by management on a regular basis and undergo formal review by both Internal and External Audit, whose reports are made available to the Audit and Risk Committee.

Audit Scotland reviewed the controls operating within Revenue Scotland and the controls on systems operated on behalf of Revenue Scotland by the Scottish Government. No significant control weaknesses were identified. The review identified improvements in the framework of controls in place and we have agreed actions to address the matters raised. The review also referred to the good progress made in key areas of activity such as compliance. However, it was recognised that compliance activity is still at an early stage and that this will be further progressed in 2019-20.

External scrutiny
As a Non-Ministerial Department, Revenue Scotland is accountable to the Scottish Parliament and, as such, can be called to appear before parliamentary committees to provide updates on operational matters, give evidence on tax-related matters or provide written statements.

During the reporting period, Revenue Scotland submitted evidence[14] to the Finance and Constitution Committee for its scrutiny of the LBTT (Relief from Additional Amount) (Scotland) Bill. It also provided a written response to the Committee's Stage 1 report[15] on the Bill and an update on preparations for Air Departure Tax (ADT).

Revenue Scotland's Corporate Plan, supporting legislation and this annual report are published documents. The Corporate Plan 2018-21, on which this document reports, was approved by Scottish Ministers and laid before the Scottish Parliament in April 2018.

Both Corporate Plans, all annual reports and accounts and minutes of the Revenue Scotland Board meetings are available to download at:

https://www.revenue.scot/about-us/publications.

14 https://www.parliament.scot/S5_Finance/General%20Documents/Revenue_Scotland_LBTT.pdf
15 https://www.parliament.scot/parliamentarybusiness/CurrentCommittees/107150.aspx

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Assurances provided to the Chief Executive

I have received written assurances from members of my Senior Leadership Team who have responsibility for the operation and effectiveness of internal controls within the Tax, Legal, Strategy, Change and Corporate Functions teams.

Additionally for those services which Revenue Scotland receives from the Scottish Government, I have received written assurance from the Scottish Government's Chief Financial Officer in respect of the financial systems, from the Scottish Government's Director for People in respect of the human resources (HR) services and payroll systems shared with Revenue Scotland and from Scottish Government's Director Digital in respect of digital corporate services shared with Revenue Scotland.

I sought further information from the Chief Financial Officer regarding the audit work undertaken by Audit Scotland and Internal Audit into the systems on which Revenue Scotland relies and I am satisfied with the assurances provided by them. However, the ongoing lack of a Memorandum of Understanding between this part of Scottish Government (SG) and Revenue Scotland means that there is no formal arrangement upon which Revenue Scotland can rely for raising and solving issues. I have raised this with the Chief Financial Officer and will continue to pursue this as a matter of priority.

In relation to the HR services which Revenue Scotland receives, work has proceeded over the course of the year to establish a revised Memorandum of Understanding for the transactional and advisory services we receive and also a Data Protection Agreement. I have asked the Director for People that these are concluded as soon as possible.

I also understand that SGIAD will undertake further work on the shared services provided by the Scottish Government at the request of the Scottish Government Audit Committee. I will look to the outcomes of this work to progress these matters.

I have also received assurance from the Accountable Officers of Registers of Scotland and the Scottish Environment Protection Agency in respect of the statutory functions delegated to them by Revenue Scotland. No issues of concern were raised by them.

These arrangements have been in operation throughout 2018-19, up to and including the date of authorisation of these accounts.

In conclusion, I can confirm that, based on the aforementioned governance arrangements, there were no significant control weaknesses identified in the period under review.

Further information

More information on the governance arrangements of Revenue Scotland, its Board and sub-committees is available on Revenue Scotland's website (www.revenue.scot).

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Remuneration and staff report

Remuneration

The remuneration of senior civil servants is set in accordance with the rules set out in chapter 7.1, Annex A of the Civil Service Management Code and in conjunction with independent advice from the Senior Salaries Review Body (SSRB). In reaching its recommendations, the SSRB is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target; and
- evidence they receive about wider economic considerations and the affordability of their recommendations.

Further information about the work of the SSRB can be found at www.ome.uk.com.

The remuneration of non-senior civil servants within Revenue Scotland is set in accordance with Scottish Government Public Sector Pay Policy as part of the Scottish Government Main Bargaining Unit. Further information about the Public Sector Pay Policy can be found at http://www.gov.scot/Topics/Government/public-sector-pay/staff-pay.

Revenue Scotland's Board members are non-executive and receive fees for duties on behalf of Revenue Scotland including attendance at Revenue Scotland Board and Committee meetings. Fees are paid at the daily rate set out in their letters of appointment. Expenses incurred in carrying out these duties are also reimbursed.

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Fees of Board members, co-opted Committee members and salaries of the Senior Management Team are shown below:

Non-executive Board	2018-19 Fees £000	2017-18 Fees £000
Dr Keith Nicholson, Chair	15-20	20-25
Lynn Bradley, Board member	5-10	5-10
Jane Ryder, OBE, Board member	0-5	5-10
Ian Tait, Board member	0-5	0-5
John Whiting, CBE, Board member	5-10	5-10

Non-executive Board members, or co-opted Committee members are not employees of Revenue Scotland and do not benefit from pension arrangements.

Co-opted Committee Members	2018-19 Fees £000	2017-18 Fees £000
Steve Bruce, Member of ARC (appointed 1 April 2018)	0-5	0

Senior Leadership Team		Salary £000		Pension Benefits to the nearest £1000		Total 2018-19	Total 2017-18
		2018-19	2017-18	2018-19	2017-18	£000	£000
Elaine Lorimer	Chief Executive	95-100	90-95	28,000	24,000	120-125	115-120
Stephen Crilly	Head of Legal Services	70-75	65-70	31,000	21,000	100-105	85-90
Andrew Fleming	Head of Strategy & Corporate Functions	70-75	70-75	33,000	17,000	105-110	85-90
Chris Myerscough	Head of Tax	70-75	65-70	34,000	25,000	105-110	90-95

None of the above received any benefits in kind or bonus payments in the year 2018-19 or 2017-18.

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Salary covers both pensionable and non-pensionable amounts and includes: gross salaries; overtime; recruitment and retention allowances; or other allowances to the extent that they are subject to UK taxation and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties.

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid member of the Senior Leadership Team in Revenue Scotland in the financial year 2018-19 was £95-100,000 (2017-18: £90-95,000). This was 3.1 times (2017-18: 2.5) the median remuneration of the workforce, which was £31,692 (2017-18: £36,749).

In 2018-19, no employee received remuneration in excess of the highest-paid member of the Senior Leadership team. Remuneration ranged from £15,000 to £97,000 (2017-18: £18,000-£95,000).

In accordance with the FReM, reporting bodies are required to disclose the relationship between the remuneration of the highest-paid member of the Senior Management Team in their organisation and the median remuneration of the organisation's workforce. The median calculation includes directly employed staff paid through Revenue Scotland's payroll. It covers both permanent staff and those on fixed term contracts. It does not include temporary agency staff paid locally by invoice. The ratio is calculated as the mid-point of the highest band divided by the median total remuneration.

	2018-19	2017-18
Minimum Total Remuneration (£'000)	15	18
Maximum Total Remuneration (£'000)	97	95
Band of Highest Paid member of staff (£'000)	95-100	90-95
Median Total Remuneration (£)	31,692	36,749
Ratio	3.1	2.5

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Pension Benefits

Senior Management Team	Accrued pension at NRA as at 31 March 2019 and related lump sum £000	Real increase in pension and related lump sum at NRA £000	CETV as at 31 March 2019 £000	CETV as at 31 March 2018 £000	Real increase in CETV in 2018-19 £000
Elaine Lorimer – Chief Executive	35-40 plus a lump sum of 80-85	0-2.5 plus a lump sum of 0	656	565	12
Stephen Crilly – Head of Legal Services	20-25	0-2.5	306	243	13
Andrew Fleming – Head of Strategy & Corporate Functions	25-30 plus a lump sum of 70-75	0-2.5 plus a lump sum of 0-2.5	584	504	21
Chris Myerscough – Head of Tax	30-35 plus a lump sum of 25-30	0-2.5 plus a lump sum of 0-2.5	653	559	36

Pension benefits are calculated on normal retirement age (NRA) where the pension entitlement is due at that age or at current age if over NRA.

The above pension data was supplied to Revenue Scotland by MyCSP, pension administrators.

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Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

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Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Civil Service early departure compensation schemes

Redundancy and other departure costs are paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. These are employer costs associated with early departure and are accounted for in full in the year of departure. Where Revenue Scotland has agreed early retirements, the additional costs are met by Revenue Scotland and not the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the undernoted.

No members of staff left Revenue Scotland under the scheme in 2018-19 or 2017-18.

Staff report

Staff of Revenue Scotland are civil servants, part of the Scottish Administration, rather than the Scottish Government, and are required to adhere to the standards set out in the Civil Service Code applicable to staff in non-Ministerial Departments in Scotland. The code sets out the framework within which all civil servants work, and the core values and standards of behaviour which they are expected to uphold.

Staff are appointed by Revenue Scotland and act under the direction of the Board of Revenue Scotland. Revenue Scotland is responsible for ensuring that staff recruitment arrangements are fair, open and transparent in line with the Civil Service Commissioners' Recruitment Principles. All recruitment, including for Senior Civil Service posts, adhere to the Scottish Government's recruitment policies and procedures.

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Average number of people employed

The average number of whole-time equivalent people employed during the year was as follows:

	Administration	Programme	2018-19	2017-18
Permanent contracted staff	56	3	59	53
Fixed term contracted staff	2	0	2	1
Agency staff	5	5	10	8
Average number of persons employed	**63**	**8**	**71**	**62**

Staff numbers have been allocated as follows:

- administration – this is the general day to day running of Revenue Scotland which includes the costs associated with the collection and administration of tax.
- programme – reflects non-administration costs, this is the cost of implementing processes and systems to comply with new legislation.

Staff Composition

The average number of people of each sex employed by Revenue Scotland by category is set out in the following table. The numbers include permanent and temporary staff.

	2018-19		2017-18	
	Male	Female	Male	Female
*SLT – Senior Civil Servant	0	1	0	1
*SLT – other	2	1	2	1
Employees	32	35	28	30
Total	**34**	**37**	**30**	**32**

*SLT – Senior Leadership Team

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Gender Pay Gap

The gender pay gap is calculated as the difference between average hourly earnings of men and women as a proportion of average hourly earnings (excluding overtime) of men's earnings. A positive pay gap means that men earn more than women on average.

The gender pay gap is a means of highlighting a disparity in the pay received by men and women and is influenced by both the pay levels for equivalent jobs and the distribution of men and women across the grades within the workforce.

In 2018 the gender pay gap for Scotland was 15.0% (2017: 16.0%). This is the median figure which is the standard figure used by the Office of National Statistics to calculate the pay gap.

The median gender pay gap for all staff at Revenue Scotland at the end of March 2019 is 8.5% (2018: 22.1%).

This represents a considerable improvement from 2017 and means that the gender pay gap at Revenue Scotland is now smaller than the national pay gap. This reflects the results of recruitment and promotions during the reporting year which have seen several women recruited or promoted into management roles.

Within Revenue Scotland, where men and women are undertaking work of an equal value (i.e. within the same pay range) they are paid a similar rate. The pay gap arises as a higher percentage of female staff are at lower grades than male staff, and the size of the organisation means that figures can be skewed easily by a small number of individuals.

However there is still further work required to reduce this gap further. Revenue Scotland will continue to monitor the gender pay gap and related data such as the distribution of women and men across different grades and professions within the organisation. The pay gap is reported on within the annual report and every two years in the Revenue Scotland Equalities Mainstreaming Report. This information informs recruitment and retention strategies with a view to reducing the gender pay gap.

Strategies in place include supporting staff to attend the 'Women in Leadership Conference' and encouraging staff to attend events run by the Women in Tax Network, requirements for staff involved in recruitment to undertake 'Unconscious Bias' training and support for flexible working patterns.

Sickness Absence

Revenue Scotland recognises that the success of any organisation depends largely on the effective performance and full attendance of all its employees. People are a valued resource, and as an employer Revenue Scotland's attendance management procedures are designed to maintain a happy, well-motivated and healthy workforce. The procedures are aimed to:

- be supportive and positive;
- promote fair and consistent treatment for everyone; and
- encourage, assist and make it easy for people to stay in work and explain employees' entitlements and roles and responsibilities.

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In 2018-19 an average of 12.7 working days per employee were lost (2017-18: 8.8 days). Attendance and reasons for absence are analysed and monitored on a monthly basis. Support is provided to both line managers and staff to ensure that the right actions are being taken to manage attendance.

Employees with disabilities

Revenue Scotland complies with the Scottish Government's Civil Service Code of Practice on the employment of people with disabilities. The code aims to ensure that there is no discrimination on the grounds of disability and that employment opportunities and career advancement is based solely on ability, qualifications and suitability for the work.

Diversity and equality

Equality and diversity are central to the way that Revenue Scotland conducts its business and this is demonstrated in the Corporate Plan and People Strategy, as well as being set out in the Equality Mainstreaming Reports (EMRs).

Revenue Scotland's EMR in 2016 included two equality outcomes and an action plan covering 2016-2020. In 2018 the organisation published its second EMR to give an update on progress.

The main focuses for 2018-19 were the development of a British Sign Language Plan for Revenue Scotland and a fair treatment at work project developing the culture at Revenue Scotland.

Health and Safety

The organisation's current Health and Safety policy was developed in consultation with SEPA health and safety experts in recognition that one of the highest risk areas for staff is ensuring the safety of staff entering landfill sites.

The H&S Committee oversee quarterly inspections to ensure the workplace is fit and proper for the staff of Revenue Scotland.

Additional measures in place to mitigate this risk include staff always being accompanied by SEPA staff whenever such site visits are made, and regular SEPA training of Revenue Scotland staff who need to access landfill sites.

During the last reporting year, two members of staff completed first aid training. Four members of staff volunteered for and received fire-marshall training in accordance with the Scottish Government policy. There have been two evacuation drills over this period.

Trade Union Representatives

The Trade Union (Facility Time Publication Requirements) Regulations came into force on 1 April 2017. One employee of Revenue Scotland was a relevant trade union official during the year during the period January to March 2019. The time spent on trade union activities represented 9.4% of the employee's total time during that period at a cost of £1,125.

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Staff costs

	Administration costs		Programme costs	2018-19 Total	2017-18 Total
	Permanently employed staff £000	Others £000	Others £000	£000	£000
Wages and Salaries	2,340	0	146	2,486	2,086
Social Security costs	249	0	16	265	221
Pension costs	493	0	30	523	436
Agency staff costs	0	366	924	1,290	775
Staff costs capitalised	0	0	(284)	(284)	0
Total staff costs	3,082	366	832	4,280	3,518

Accountability Report 2018-19
Remuneration and staff report

Staff costs for Revenue Scotland in the period 2018-19 are set out above. Wages and salaries include gross salaries, performance pay or bonuses received in year (of which there were none), overtime and any other allowance that is subject to UK taxation. The payment of legitimate expenses is not part of salary.

The costs of staff who have been working on the development of the new tax system have been capitalised as part of the cost of the asset.

Revenue Scotland employees are civil servants who are entitled to be members of the Civil Servants and Others Pension Scheme or the Principal Civil Service Pension Scheme These schemes are unfunded, multi-employer defined benefit schemes in which Revenue Scotland is unable to identify its share of the underlying assets and liabilities. The schemes are accounted for as defined contribution schemes under the multi-employer exemption permitted in IAS 19 Employee Benefits. A full actuarial valuation of the PCSPS was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk).

For 2018-19, Revenue Scotland's contributions of £519,000 (2017-18: £434,000) were payable to the two schemes at one of four rates in the range 20 per cent to 24.5 per cent of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account or a stakeholder pension with an employer contribution. Employer contributions of £4,000 (2017-18: £2,000) were paid to an appointed stakeholder pension provider. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings.

The information included within the remuneration, pension benefits, Civil Service early departure compensation packages, average number of persons employed and staff costs sections above are covered by the audit opinion.

Elaine Lorimer
Chief Executive of Revenue Scotland and Accountable Officer

September 2019

Independent Auditors Report

Independent auditor's report to Revenue Scotland, the Auditor General for Scotland and the Scottish Parliament

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Revenue Scotland (Resource Accounts) for the year ended 31 March 2019 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (the 2018/19 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 9 March 2015. The period of total uninterrupted appointment is four years. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditors Report

Independent auditor's report to Revenue Scotland, the Auditor General for Scotland and the Scottish Parliament

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Independent Auditors Report

Independent auditor's report to Revenue Scotland, the Auditor General for Scotland and the Scottish Parliament

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects:

- the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Independent Auditors Report

Independent auditor's report to Revenue Scotland, the Auditor General for Scotland and the Scottish Parliament

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Mark Taylor
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

September 2019

Financial Statements 2018-19
Statement of Comprehensive Net Expenditure

For the Year Ended 31 March 2019

	Note	Administration Costs £000	Programme Costs £000	2018-19 Total £000	2017-18 Total £000
Staff costs	2	3,448	832	4,280	3,518
Purchase of goods and services	3	1,668	263	1,931	1,955
Depreciation/impairment	5	9	0	9	12
Net operating costs for the year		5,125	1,095	6,220	5,485

Financial Statements 2018-19
Statement of Financial Position

as at 31 March 2019

	Note	2018-19 £000	2017-18 £000
Non-current assets			
Tangible assets	5	54	63
Intangible assets	5	1,228	0
Total non-current assets		1,282	63
Current assets			
Other receivables	6	70	133
Total current assets		70	133
Current liabilities			
Trade & other payables	7	(725)	(941)
Total current liabilities		(725)	(941)
Total net assets		627	(745)
Taxpayers' equity		627	(745)

The notes on pages 82 to 93 form part of these financial statements.

The Chief Executive and Accountable Officer authorised these financial statements for issue on September 2019

Elaine Lorimer
Chief Executive of Revenue Scotland and Accountable Officer

Financial Statements 2018-19
Statement of Cash Flows

For the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Cash flows from operating activities			
Net operating costs for the year	SoCNE	(6,220)	(5,485)
Adjustments for non cash transactions			
Audit fee	9	94	91
Depreciation	5	9	9
Impairment	5	0	3
Movements in working capital			
(Increase)Decrease in trade and other receivables	6	63	59
(Decrease)/Increase in trade and other payables	7	(216)	641
Net cash outflow from operating activities		(6,270)	(4,682)
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(1,228)	0
Net cash outflow from investing activities		(1,228)	0
Cash flows from financing activities		0	0
Net funding	4	7,498	4,682

Financial Statements 2018-19
Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Balance at 31 March		(745)	(33)
Net operating costs for the year	SoCNE	(6,220)	(5,485)
Non cash charges – auditor's remuneration	9	94	91
Net funding	4	7,498	4,682
Balance at 31 March		627	(745)

The notes on pages 82 to 93 form part of these financial statements.

Financial Statements 2018-19
Notes to the Accounts

1 Statement of Accounting Policies

1.1 Basis of accounting

In line with section 12 of the Revenue Scotland and Tax Powers Act 2014, and in accordance with the accounts direction issued by the Scottish ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, these financial statements have been prepared in accordance with the 2018-19 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The accounts are prepared using accounting policies, and where necessary, estimation techniques which are judged to be most appropriate to the particular circumstances for the purpose of giving a true and fair view in accordance with the principles set out in International Accounting Standards (IAS) 8 *Accounting Policies, Changing in Accounting Estimates and Errors*.

In accordance with FReM these accounts have been prepared under the historical cost convention and on a going concern basis, which provides that the organisation will continue in operational existence for the foreseeable future.

1.2 Accounting convention

The accounts have been prepared in accordance with the historical cost convention modified to account for fair value of non-current assets. Expenditure has been accounted for on an accruals basis.

1.3 New Accounting Standards

In accordance with IAS 8, changes to International Financial Reporting Standards (IFRS) that have been issued but not yet effective have been reviewed for impact on the financial statements in the period of initial application. The standards that are considered relevant to Revenue Scotland and the anticipated impact on the accounts are as follows:

IFRS 16 – Leases

This standard will come into effect for accounting periods beginning after 1 April 2020, when the distinction between finance and operating leases is removed and all leases become “on balance sheet”. The FReM interprets and adapts IFRS 16 for the public sector context in several ways. Information is currently being gathered to identify all right of use and leased assets not currently capitalised. The full impact has not yet been determined. These assets will be included on the statement of financial position from 1 April 2020, in accordance with the transition arrangements set out in IFRS 16 application guidance issued by HM Treasury in April 2019.

Financial Statements 2018-19
Notes to the Accounts

1.4 Value Added Tax (VAT)

Revenue Scotland is registered for VAT as part of the Scottish Government VAT group registration which is responsible for recovering VAT on behalf of Revenue Scotland.

Revenue Scotland does not provide any chargeable services and therefore output VAT does not apply. Irrecoverable input VAT is charged to the relevant expenditure category. Where VAT is recoverable, the amounts are stated net of VAT.

1.5 Property, Plant, Equipment and Intangible Assets

Recognition

All property, plant and equipment assets, including intangible assets, are accounted for as non-current assets unless they are deemed to be held for sale.

Capitalisation

Minor expenditure on equipment and furniture are written off in the year of purchase, as are all other items of a capital nature costing less than £10,000.

Assets under development

Assets under development are shown separately in note 5. Costs are accumulated until the assets is brought into use whereupon it is transferred into the relevant asset class and depreciated.

Staff costs

Where staff have been working on the development, integration and testing of IT software, these costs are included in the amounts capitalised.

Depreciation

Provision for depreciation is made so as to write off the cost of non-current assets on a straight line basis over the expected useful lives of the assets concerned. The expected useful lives of assets are regularly and systematically reviewed to ensure that they genuinely reflect the actual replacement cycle of all assets. Depreciation is not charged on assets in the course of development until the month after they are brought into use.

The expected useful lives are as follows:

- computer equipment 3 – 10 years;
- IT systems 3 – 10 years;
- office equipment 3 – 10 years; and
- furniture and fittings 3 – 15 years.

Asset Valuation

Depreciated historical cost is used as a proxy for fair value since the assets are low value and have short useful lives.

1.6 Financial instruments

As the cash requirements of Revenue Scotland are met through the Scottish Government, financial instruments play a limited role in creating and managing risk. The only financial instruments within the accounts are financial assets in the form of other receivables, and financial liabilities in the form of trade and other liabilities.

Financial Statements 2018-19
Notes to the Accounts

1.7 Leases

Operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease.

1.8 Pension costs

Revenue Scotland employees are civil servants who are entitled to be members of the Civil Servant and Others Pension Scheme or the Principal Civil Service Pension Scheme. These are unfunded, multi-employer defined benefit schemes in which Revenue Scotland is unable to identify its share of the underlying assets and liabilities. The schemes are accounted for as defined contribution schemes under the multi-employer exemption permitted in IAS 19 *Employee Benefits*.

Revenue Scotland's contribution is recognised as a cost in the year.

1.9 Short term employee benefits

The cost of annual leave and flexible working time entitlement earned but not taken by employees at the end of the year is recognised as an accrual of benefits in the financial statements to the extent that employees are permitted to carry forward leave into the following year.

1.10 Other receivables

Other receivables are stated at their nominal value.

1.11 Trade and other payables

Trade payables are stated at their nominal value.

Financial Statements 2018-19
Notes to the Accounts

2. Staff Costs

	2018-19 £000	2017-18 £000
Wages and salaries	2,486	2,086
Social Security costs	265	221
Pension costs	523	436
Agency costs	1,290	775
Less staff costs capitalised	(284)	0
	4,280	3,518

More details on staff numbers and related costs can be found in the Staff Report on page 68.

Financial Statements 2018-19
Notes to the Accounts

3. Goods and services

Revenue Scotland's goods and services costs have been allocated as follows:

- Administration – this is the general day to day running of Revenue Scotland which includes the costs associated with the collection and administration of tax.
- Programme – reflects non-administration costs, this is the cost of developing processes and systems to comply with new legislation or the introduction of new IT systems.

	Administration costs £000	Programme costs £000	2018-19 Total £000	2017-18 Total £000
Staff related costs				
Board fees & expenses	38	0	38	42
Travel & subsistence	33	7	40	30
Training	59	5	64	41
Recruitment	11	0	11	6
Supplies & services				
Legal	26	49	75	80
Computer & telephone	62	190	252	267
Shared services (1)	334	0	334	263
Delegated duties (2)	670	0	670	663
Other supplies & services	341	12	353	472
Audit fee – external (see note 9)	94	0	94	91
Total goods & services	1,668	263	1,931	1,955

Financial Statements 2018-19
Notes to the Accounts

(1) In the interests of efficiency, effectiveness and economy, Revenue Scotland and the Scottish Ministers are committed to identifying opportunities for shared services. The amount represents costs charged by the Scottish Government for the following functions:-

- Human Resource management (including, for example: general terms and conditions of service, pay negotiations, pay awards, payroll, pensions and recruitment for senior civil service posts);
- Financial management (Scottish Government finance systems);
- Information Systems, Telephony, Information and Library Service;
- Estates and facilities management;
- Internal audit;
- Procurement.

(2) Delegated duties represents the amounts payable to Registers of Scotland and the Scottish Environment Protection Agency in relation to the duties delegated to them under the Revenue Scotland and Tax Powers Act 2014.

Financial Statements 2018-19
Notes to the Accounts

4. Reconciliation of net resource outturn to net funding received

	2018-19 £000	2017-18 £000
Resource outturn	6,220	5,485
Capital outturn	1,228	0
Non cash charges – auditor's remuneration (note 9)	(94)	(91)
Depreciation/impairment	(9)	(12)
Changes in working capital	153	(700)
Net funding	7,498	4,682

Financial Statements 2018-19
Notes to the Accounts

5. Non-current assets

Tangible Assets

	Furniture & Fittings £000	2018-19 Total £000	2017-18 Total £000
Cost			
At 1 April 2018	76	76	76
Additions	0	0	0
At 31 March 2019	**76**	**76**	**76**
Depreciation			
At 1 April 2018	13	13	1
Charged in the year	9	9	9
Impairment	0	0	3
At 31 March 2019	**22**	**22**	**13**
Asset financing			
Owned	54	54	63
Carrying amount at 31 March 2019	**54**	**54**	**63**

Financial Statements 2018-19
Notes to the Accounts

Intangible Assets

	IT System under development £000	2018-19 Total £000	2017-18 Total £000
Cost			
At 1 April 2018	0	0	0
Additions	1,228	1,228	0
At 31 March 2019	**1,228**	**1,228**	**0**
Amortisation			
At 1 April 2018	0	0	0
Charged in the year	0	0	0
Impairment	0	0	0
At 31 March 2019	**0**	**0**	**0**
Asset Financing			
Owned	1,228	1,228	0
Carrying amount at 31 March 2019	**1,228**	**1,228**	**0**

At 31 March 2019 the IT system was in the course of development and went live in July 2019.

Financial Statements 2018-19
Notes to the Accounts

6. Other receivables

Amounts falling due within one year:	2018-19 £000	2017-18 £000
Prepaid expenses	61	133
Sundry debtors	9	0
Total receivables within one year	70	133

7. Trade and other payables

Amounts falling due within one year:	2018-19 £000	2017-18 £000
Trade payables	7	26
Social security and payroll related	138	0
Accrued short-term employee benefits (see note 1.9)	127	123
Other accruals	453	792
Total payables within one year	725	941

Financial Statements 2018-19
Notes to the Accounts

8. Related party transactions

Revenue Scotland is a non-ministerial department of the Scottish Administration and it considers that the Scottish Government is a related party within this context. During the year Revenue Scotland has had a number of material financial transactions with the Scottish Government.

In line with the RSTPA, Section 2, Revenue Scotland has delegated some of its functions relating to LBTT and SLfT to Registers of Scotland (RoS) and the Scottish Environment Protection Agency (SEPA) respectively.

Dr Keith Nicholson, Chair of Revenue Scotland, is a Board Member of SEPA.

None of the board members, key managerial staff or other related parties has undertaken any material transactions with Revenue Scotland during the year.

9. Audit fee

The following charges have been included in the accounts:

	2018-19 £000	**2017-18 £000**
Auditor's fee – resource accounts	21	20
Auditor's fee – devolved taxes account	73	71
	94	91

Auditor’s remuneration is disclosed as a notional charge and relates to fees notified to Revenue Scotland by Audit Scotland in respect of audit work carried out in relation to the year ended 31 March 2019. All audit fees are paid from the Scottish Consolidated Fund.

No non-audit work was carried out by Audit Scotland during the year ended 31 March 2019.

Financial Statements 2018-19
Notes to the Accounts

10. Commitments

Total future minimum payments under contractual commitments are given in the table below for each of the following periods:

	2018-19 £000	2017-18 £000
IT Systems		
Not later than one year	240	101
Between one and five years	880	64
Beyond five years	1,145	0
	2,265	165

The amounts above are in relation to the contracts for the provision of Revenue Scotland's tax and finance systems. The contract for the original SETS tax system expires in August 2019 and the new system went live in July 2019 and the contract will expire in 2029. The contract for the finance system is initially for two years with an option to extend.

Amounts charged for operating leases in 2018-19 of £182,000 (2017-18: £182,000) are included within computer and telephone costs in note 3 above.

Capital Commitments

	2018-19 £000	2017-18 £000
IT Systems		
Not later than one year	513	0
	513	0

The above amount is in relation to the contract for the provision of Revenue Scotland's tax system which went live in July 2019.

Accounts Direction

Scottish Government
Riaghaltas na h-Alba
gov.scot

REVENUE SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

In accordance with section 19(4) of the Public Finance and Accountability Scotland Act 2000, The Scottish Ministers hereby give the following direction:

1. Revenue Scotland will prepare accounts for the financial year ended 31 March 2016, and subsequent years. The accounts shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the accounts are prepared.

2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year of Revenue Scotland in the exercise of its functions

3. This direction shall be reproduced as an appendix to the accounts.

Signed by the authority of the Scottish Ministers

A J Stafford

Dated 20 April 2016

Contact details:
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Edinburgh
EH6 9BR
Visit: www.revenue.scot