



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government, Housing and Planning Committee

Tuesday 14 November 2023

Session 6



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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
27th Meeting 2023, Session 6

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

*Miles Briggs (Lothian) (Con)

*Stephanie Callaghan (Uddingston and Bellshill) (SNP)

*Pam Gosal (West Scotland) (Con)

*Mark Griffin (Central Scotland) (Lab)

*Marie McNair (Clydebank and Milngavie) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Tom Arthur (Minister for Community Wealth and Public Finance)

Alisdair Grahame (Scottish Government)

Ben Haynes (Scottish Government)

Mirren Kelly (Convention of Scottish Local Authorities)

Gail Macgregor (Convention of Scottish Local Authorities)

CLERK TO THE COMMITTEE

Euan Donald

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 14 November 2023

[The Convener opened the meeting at 09:02]

Interests

The Convener (Ariane Burgess): Good morning, and welcome to the 27th meeting in 2023 of the Local Government, Housing and Planning Committee. Mark Griffin and Stephanie Callaghan are joining us online.

I invite Marie McNair and Stephanie Callaghan to draw members' attention to their interests.

Marie McNair (Clydebank and Milngavie) (SNP): Until May 2022, I was a councillor in West Dunbartonshire.

Stephanie Callaghan (Uddingston and Bellshill) (SNP): I was a councillor at South Lanarkshire Council until 2021.

The Convener: Thank you.

I remind members and witnesses that they should ensure that all their devices are on silent and that all other notifications are turned off during the meeting.

Decision on Taking Business in Private

09:03

The Convener: The next item on our agenda is to decide whether to take item 6 in private. Do members agree to do so?

Members indicated agreement.

The Convener: The committee previously agreed to take item 5 in private.

Visitor Levy (Scotland) Bill: Stage 1

09:03

The Convener: The next item on our agenda is to take evidence on the Visitor Levy (Scotland) Bill from two panels of witnesses. Our first panellists are from the Convention of Scottish Local Authorities. We are joined online by Mirren Kelly, who is the chief officer for local government finance, and Councillor Gail Macgregor, who is the environment and economy spokesperson. I welcome them to the meeting.

We will direct our questions in the first instance to Councillor Macgregor, but if Mirren Kelly would like to come in, she should type R in the chat function, please. There is no need for you to manually operate your microphones, because we will do that automatically for you.

I will start with your views on the general aims of the bill. COSLA's submission said that the levy would

"have a positive impact on Local Government."

I would be interested to hear your thoughts on the fact that not all local authorities are expected to introduce a levy. Will that create a funding disparity between councils that have high numbers of overnight visitors and those that have relatively few?

Gail Macgregor (Convention of Scottish Local Authorities): Good morning, members. It is lovely to be here.

To give some context, I launched a consultation on the subject in June 2018, so it has been in the system for quite a long time, and it is great that we have got to this stage.

COSLA has been very clear that the approach is not a one-size-fits-all one and that not all local authorities will use the power. Some authorities are heavily pressured, with high tourist and visitor numbers. The power will be absolutely pivotal for them in being able to manage the services that are required around the tourism offering. It is critical that the public and businesses understand that the levy will not be implemented by all authorities and that it will be very sensitively handled by those who feel that they need to introduce the power to manage their services. Obviously, the additional income that is intended to come from the visitor levy will be utilised to support tourism and visitor services.

I do not know whether Mirren Kelly has anything to add to that.

The Convener: I wonder about the funding disparities that might be caused by some local

authorities taking up the levy and others not doing so. What are your thoughts on that?

Councillor Macgregor: As I have just said, what is key is that the additional income that will come in from the visitor levy will be utilised to support services that are required for high numbers of visitors. The authorities that do not have as high visitor numbers will not have the additional service pressures. Money will therefore go back into services.

The Convener: Thank you for clarifying that, because I did not quite pick up your point.

To continue on the theme of tourism offers and pressures, your submission mentions the significant reduction in local authority spending on culture, leisure and roads over the past 10 years. Has COSLA done any research on the impact that spending decisions have had on the tourism offer and the communities that have been affected? To what extent could visitor levy money help to reverse any underinvestment in those service areas?

Councillor Macgregor: As you will be aware, local government finance has reduced, particularly in areas that are not ring fenced or protected. Culture and leisure services, environmental services and roads have been particularly hit in the past 10 to 13 years.

The key thing is that, where there is additional pressure on services in particular authorities, the visitor levy will be used directly to support things such as waste collection, the street scene and other offerings that make somewhere a more attractive place for people to visit. We know that those service areas have been cut consistently over the years in order to protect front-line and key services, but those services are really important in having a good tourism or visitor offering. The street scene and ensuring that the environment is clean and that waste is lifted promptly are important. If councils do not have the funding to do that and have high visitor numbers, the offering becomes less. The key is that the additional funding that will come in from the levy will assist in that support.

Mirren Kelly may have some additional mapping about the impact of that, but it is certainly true that the services that sit within the 30 per cent of council budgets that are not protected have been hit significantly in comparison with others.

The Convener: Pam Gosal has a brief supplementary question.

Pam Gosal (West Scotland) (Con): Good morning, panel. Councillor Macgregor, you have just spoken about how the funding might assist certain infrastructure, cleaning services, bin services and so on. I asked questions last week

and the week before about the revenue, which could end up being used to plug a hole in council budgets. That is a very grey area. Do you think that the revenue should be ring fenced for tourism-related spending only? How do you see that working?

Councillor Macgregor: The principle is that local government and individual councils should be able to create a model that suits their particular area, but there has been a huge emphasis on the levy being able to assist areas that are pressured—particularly Edinburgh, the Highlands and Islands and Argyll and Bute, which have massive visitor numbers but do not have any additional income at the moment to assist with the pressures that are caused by that.

Councils intend to direct the funding to areas that would assist tourism. That is not to plug a gap, although there are massive gaps in local government finance; it acknowledges that there are higher pressures in areas in which there are high visitor numbers. As a consequence, the funding would be put back into services that would support that and support business and communities in those areas.

We all know that communities can get frustrated when there are high tourist and visitor numbers, and the pressures in their local areas begin to grow. Communities would welcome the additional investment that would come on the back of the visitor levy.

Mirren Kelly (Convention of Scottish Local Authorities): I will pick up a couple of those points.

On the concern about a potential disparity, that is one reason why it is critical that the levy is discretionary. Following local consultation, councils will be able to make a decision about whether the approach is appropriate for their local area and circumstances.

Councillor Macgregor has clearly set out where there could be benefits. It is worth highlighting that things such as councils' culture and tourism offers have had to be significantly cut in real terms over the past 10 to 15 years due to directed spend and ring fencing around other elements of local government funding.

From our perspective and from the perspective of local authorities that are interested in developing the visitor levy, the big opportunity that it presents is in the ability to start investing in tourism again. I highlight that we are keen to ensure that business tourists as well as leisure tourists are captured in that. The benefits can be mutually beneficial to communities that have experienced things such as reduced investment in their local parks and theatres, which are part of what makes Scotland attractive.

The Convener: Thank you for those additional comments.

Marie McNair: Good morning, Councillor Macgregor and Ms Kelly. I have asked questions that are similar to these in the two previous evidence sessions. What are COSLA's views on the levy being an accommodation levy rather than a visitor levy, as many visitors, such as day trippers, wild campers and some motorhome drivers, will pay nothing?

Councillor Macgregor: That is a very good question. The key thing is that it has to be manageable by local authorities and businesses. As you will appreciate, whether we are looking at a flat rate or a percentage rate, if it is accommodation based rather than visitor number based, it will be much easier to manage and collect, and things will be easier for businesses.

We have looked at wild campers, motorhomes and such like. Unless they stayed on dedicated sites, it would be very difficult and probably quite onerous to collect a levy from them. It would get to a point at which what we brought in through the levy would be lost in the collection.

A lot of work has been done around cruise ships and other areas. The key point is that we need to make it as easy as possible for businesses and local authorities to manage the levy, so that its full value comes into the community and can be redistributed through services.

Mirren Kelly: I will add to that. Councillor Macgregor is entirely correct. You are aware that there is work on potential options around cruise liners and what that might mean. We are discussing concerns around motorhomes, because we would not want to see any unintended consequences that might drive different types of behaviour. We hope to learn from those conversations and actively manage that issue. However, Councillor Macgregor's point is that there needs to be a proportionate and appropriate approach.

Marie McNair: Thank you for that. To go back to the subject of cruise ships, the Scottish Government has confirmed that it will seek to amend the bill to include cruise ship passengers. What are your views on that?

09:15

Mirren Kelly: COSLA leaders are certainly seeking to have passengers included, in a discretionary way, either in the bill or in another appropriate legislative vehicle. We are considering what that will mean in practice for both local authorities and the industry, including the impact that it could have. However, those things are not always straightforward.

Pam Gosal: My question is on how the levy will be raised. Councillor Macgregor has just mentioned that flat rates are much easier to manage and collect and that they are also easier for businesses and local authorities to operate. The committee has heard mixed opinions on whether the levy should be introduced as a percentage rate or a flat rate. As Councillor Macgregor said, the burden of collecting it will fall on businesses. Should the bill be amended to allow local authorities to introduce flat rates if they decide that those are more appropriate for their areas?

Councillor Macgregor: There requires to be as much flexibility as possible in the model that will be used. Local councils seek autonomy to implement the levy in the best ways for their particular local areas.

A flat rate would definitely have pros and cons. As you can imagine, if we were to apply a flat rate of £1.50 per night, that would have a disproportionate effect on a small bed and breakfast in comparison with a very expensive hotel. A percentage rate would be slightly more complicated to collect, particularly for accommodation providers that use online booking apps, because that means that their rates fluctuate. We are considering all the pros and cons and seeking as much flexibility as possible for councils in operating the levy. That is certainly being discussed.

The route to this particular bill has been an example of really good communication and co-production between local government, the Scottish Government, partners and businesses. There have been many conversations in an effort to get this right. However, at this stage, local authorities do not have a view either way. We need to consider what will be the most straightforward method for councils and businesses to manage that is not disproportionate and does not disadvantage anyone either.

The Convener: May I clarify a point, Councillor Macgregor? I understand what you said about councils wanting to have as much flexibility as possible on the model. However, other people who have come in to talk to us about it have said that there needs to be a national agreement on one method or the other, whether that be a flat rate or a percentage rate.

Councillor Macgregor: We are not reinventing the wheel here. We are one of only nine countries in Europe that do not have some form of visitor levy. Some countries and models in Europe implement a percentage rate and others implement a flexible flat rate. In some areas, both are done. Amsterdam has a model in which businesses can choose to use one method or the other.

It is crucial to have such flexibility and to be aware of the potential complications for businesses. It will be absolutely imperative to expect individual councils that decide to adopt the visitor levy to conduct a comprehensive consultation with local businesses and people who will be affected by it. At that stage, there should be discussion about the best model for that particular local authority area.

The Convener: I see. Again, I am just trying to get this clear. You would like to see the bill have the option for a flat rate or a percentage rate, and allow councils to choose whichever one they want to pick up and consult on.

Councillor Macgregor: In our discussion with the Government, we would ask it to ensure that there is as much flexibility as possible. As I have said, different areas will want to implement the levy in different ways to suit their localities, in line with the model on the continent, in which there is flexibility as to either a percentage rate or a flat rate.

Miles Briggs (Lothian) (Con): Thank you both for joining us today.

I will carry on with a couple of questions about the flexibility of the levy. There have been calls for a nationally set cap, either on the percentage rate or on the number of nights that would be chargeable. If different local authorities each set a levy, that might create a postcode lottery for people visiting Scotland. What is COSLA's view on that? Specifically, what is COSLA's view on the number of nights for which the levy would be charged?

Councillor Macgregor: Again, it is about the flexibility of the local council, and it should be self-regulating. That way there would be no need for a cap. I hope that authorities would look at that very sensitively and understand their local area and the pressures within it, if they choose to implement it at all. The better model would be a self-regulating one in which there is no need for a cap, and that would be COSLA's preferred option.

Miles Briggs: Throughout the time that we have been looking at the bill, I have raised the issue of exemptions for individuals. The fact is that this is more of an accommodation tax than a tourist tax and some groups of people—those who are staying in hotels while they visit family members in hospital, for example—should not be captured by it. First, does COSLA support exemptions, and secondly, how could such exemptions best be delivered? The bill includes a section on voucher schemes, but that is the only detail that the Scottish Government has given.

Councillor Macgregor: Any shift to a national exemption would likely create an additional restrictive and disadvantageous burden, and it

would be very difficult to implement. Mirren Kelly may be able to say more about what discussions there have been with Government, but trying to avoid unintended negative consequences could, by contrast, end up with councils and businesses having an additional collection burden. The levy would be very difficult to collect, audit and validate and it would be difficult to ensure that the exemption was correct.

Mirren Kelly: We are very aware of the issue of exemptions and there will be conversations about whether there are exemptions that local authorities think should apply consistently and other elements. As Councillor McGregor said, we are also very aware of the potential complications that exemptions introduce, not just for local authorities, but for businesses and users of the premises. There is a balance to be struck between not introducing any unintended consequences or perverse behaviour into markets, and reflecting on what the local needs are.

Miles Briggs: I suppose that the difficulty is that booking accommodation is not within local government control. People do that online, through the hotels, bed and breakfasts and the guest houses that they are staying with. Monitoring exemptions is therefore not necessarily a role that councils will be responsible for. As the bill progresses, there may be more conversation about that.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning to you both. Gail Macgregor, what is COSLA's view on the 18-month lead-in debate? You have probably heard the variety of evidence given at previous committee meetings, if you have had a chance to see them. Rob Dickson from VisitScotland was quite passionate about needing the 18-month lead-in time, so that the councils are fully ready after their consultation to implement the levy. Does COSLA think that the levy can come in a bit sooner than that? Could you give us a flavour of COSLA's view, please?

Councillor Macgregor: We are listening to business and we are trying to work with it to get an implementation model that will work. At the moment, COSLA feels that the length of the lead-in period—18 months—would be excessive. We have constrained finances and any immediate revenue raising would be welcomed by authorities that are particularly impacted by high visitor numbers and tourism.

The 18-month lead-in time is excessive, particularly given that we have experience of an implementation model from many other European cities, countries and municipalities; it is not as if we are creating anything new. Models are out there that can be very easily replicated.

Willie Coffey: Gail, you said that you launched a consultation in 2018, which is now five years ago. Would you be able to put some kind of figure on what lead-in time COSLA would be happy with? Maybe it is a bit difficult and unfair to ask you that, but is there any thinking about what is a reasonable lead-in time?

Councillor Macgregor: Again, it will be down to each local authority to look at what model can be implemented, and that would be done through consultation.

As members know, a number of authorities are particularly keen to have the levy implemented and, as you say, we are five and a half years down the line—notwithstanding that we had the Covid pandemic, so we can forgive a bit of a delay in the bill. However, some local authorities are very keen to get it up and running as quickly as possible. The area that you are sitting in is one of the biggest champions for a levy; the City of Edinburgh Council is desperate to implement it and it should be done as quickly as possible.

I do not have a time frame. I do not know whether Mirren Kelly has had that conversation with the City of Edinburgh Council or Highland Council, but certainly they would be very quick to get it up and running.

Willie Coffey: Mirren, do you want to come in on that question?

Mirren Kelly: Yes. We have not asked for a formal time frame, but I emphasise that the reason why we think that an 18-month lead-in time is excessive is that it is 18 months after all the consultation has been completed. The consultation itself will take several months, as local authorities engage with local communities and businesses to develop the levy. It will always be significantly longer than 18 months before anything is implemented and that is why we think that an 18-month lead-in time is excessive and that it should be reduced. We appreciate that businesses require some certainty, as do visitors, because people plan holidays, so we would have to consider how far ahead we would want to provide certainty to both visitors and businesses.

Willie Coffey: You have probably also heard some conversation about the financial memorandum and the business and regulatory impact assessment and whether they are still appropriate or whether they need to be updated and revised because they were prepared some years ago. Do you have a view on that?

Councillor Macgregor: They are generally appropriate. Yes, they were done in 2019 and may be a little bit out of date, but the key thing, as I have said, is that on-going communication with business and engagement with the industry has continued and will continue.

The key in the future will be that any further impact assessments will be done within the local council area that is going to implement the levy. We have been very clear that continual consultation before implementation, with a very robust impact assessment, will be absolutely necessary in each local authority area.

Willie Coffey: Do you have any view on that, Mirren? *[Interruption.]* You were mute there, but I think that you said no.

I have a final query for Councillor Macgregor. We have been talking about flexibility throughout this discussion and debate. Some folk say that it is localism for localism's sake, but other folk say that it is very important that local authorities have the powers and the flexibility to do things that best suit local circumstances. What does COSLA think about the application of flexibility? Should there be rigid rules and guidance, or should there be as much localism as we can possibly put into the system?

Councillor Macgregor: It will come as no surprise to you that, as a champion of local government, I will be looking for as much flexibility around the development and implementation of the bill as possible.

09:30

The levy has been in the offing for—*[Inaudible.]*—was one of the first that we looked at that would provide local government with the flexibility to generate income and bring in some additional funding. We are consistently challenged by the Government, your committee and various other committees to look at creative ways of bringing in additional income. This model is appropriate because it gives each authority, if it chooses, the ability to do that.

It will come as no surprise that we seek as much flexibility as possible. We know our local areas and what our local areas can best manage. I suggest that having that flexibility will ensure that the model is right for the particular locality.

Willie Coffey: Is there a risk of confusing visitors with local versions of the scheme? They would go around Scotland and find different systems in different places, and the levy would be different. Some places might have a flat rate and some places might have a percentage rate.

Councillor Macgregor: There are many models across Europe. If I go to Florence, I pay a percentage rate, and if I go to Manchester, I pay a flat rate. The amount is simply added to your bill and people are very understanding of that.

Again, it will be for businesses and the local authority to ensure that booking and the management of the operating model is as easy as

possible for the user and the business. That will be crucial. People out there are used to having a local rate charge on a room rate in many countries and cities, so I do not think that it would cause any particular confusion for visitors.

Willie Coffey: Thanks very much for that, Councillor Macgregor.

The Convener: I want to come back to the percentage rate and the flat rate. You used the example of paying a percentage rate in Florence but paying a flat rate in Manchester. What about within a country? Is it common, for example, that you would go to Florence and pay a percentage rate and then go to another place in Italy such as Venice and pay a flat rate?

Councillor Macgregor: There are many models. Individual countries and some municipalities, such as in France, have different models. The individual municipalities are able to implement what they feel is best for them. As I said earlier, Amsterdam has a model where in some accommodation it is a percentage rate and in other accommodation it is a flat rate. That comes down to the ease of collection, the nature of the business, and, in consultation with the authority, what works best in that locality. There are so many models across Europe, which is why we require the maximum flexibility to ensure that what individual councils implement will work for that local area and, as I say, for its businesses and users. That is crucial.

The Convener: Great. Thank you for clarifying that. I bring in Pam Gosal.

Pam Gosal: Although some witnesses call it an accommodation tax, others have asserted that businesses would take up the role of unpaid tax collectors for local authorities. Should companies be able to claim a portion of the revenue from tourist taxes to help offset the costs of collecting and reporting levies in the same way that local authorities will be able to? My question is for Councillor Macgregor.

Councillor Macgregor: That has been raised by some businesses, but I do not believe that it will be particularly onerous on the business. This is the crucial thing: the software and what we use to claim the levy back needs to be as straightforward as possible. At the moment, for areas that have significantly high pressures from visitor numbers, the onus is on utilising that funding to make sure that the local authority area gets the maximum income and investment from it. As we discussed earlier, the street scene, parks, theatres and the overall offering is pressured in areas with high visitor numbers.

Our view is that businesses should not get a percentage of the levy fund and that its purpose is to bolster and invest in local services.

Pam Gosal: Thank you. Do you think that some local authorities, especially if there are questions regarding a flat rate or a percentage rate, may charge businesses using different mechanisms? If there are microbusinesses that have one or two locations—somewhere in the Highlands and somewhere else in Edinburgh, for example—they would need help with their administration and accountancy, and even with their website. We have heard from witnesses that they would need to ask for some help.

Councillor Macgregor: Again, we would hope that councils would discuss that with businesses in the local area, because—as you say—one size will not fit all. If someone has a business in the Highlands and Islands, the levy may apply, and if they set up a business in Edinburgh, it may apply, but they may have other businesses in different local authority areas where the levy will not be implemented at all.

I do not know whether there has been much discussion around a percentage of the levy going back to businesses; perhaps Mirren Kelly can tell us.

The Convener: Mirren, would you like to come in?

Mirren Kelly: Thank you—can you hear me?

The Convener: Yes.

Mirren Kelly: We are aware of the potential complications of local decision making for businesses, with different types of percentage levies applying at different times of the year, or not applying at all.

That is one of the reasons why we are already exploring what opportunities there might be to have a single platform for businesses to use, with regard to what might be needed behind the scheme, so that there is a single experience for businesses as opposed to, as might be suggested, businesses having to log in individually to different systems in different councils.

We are very mindful of that—the exploration is in the early stages, but the potential administrative burden on businesses is recognised and we are hoping to design systems that will reduce that burden. There would be no need for support, because there would be no significant additional costs introduced for businesses.

The Convener: Thank you for that—in my mind, you raise more questions that I am curious about. If you are talking about one single platform across Scotland, in which local authorities can choose to programme in their percentage or their flat rate, would that involve a relationship between the business and the local authority, or would it be a three-way platform through which the visitor makes a booking too?

I am seeing heads shaking. Come on in, Mirren—we will wait for you. We have to have these pauses.

Mirren Kelly: No, there is no expectation that there would be any interaction with a visitor within that. The expectation is that it would relate to any audit requirements for the payment and the interaction between any businesses and the local authority regarding the collection of the levy.

The Convener: I do not know the numbers, but we have heard that there are people who still keep their business records in pencil-and-paper, or pen-and-paper, mode. Would there be support for those people to move to the digital realm?

Mirren Kelly: We would absolutely have to factor that in, because the platform would have to be used by businesses as well as by local authorities.

I emphasise again that we are in the very early stages. We are engaging with the Digital Office for Scottish Local Government on that.

The Convener: It is great that you are at least having a conversation about a unified user experience in that way.

I bring in Stephanie Callaghan, who joins us online.

Stephanie Callaghan: I thank the panel for being with us today. First, I want to ask about the Verity house agreement. The agreement's default position is that there should be no ring fencing or direction of funding. How does that marry up, in your view, with the bill's requirements in relation to how the levy money is spent? I go to Gail Macgregor first.

Councillor Macgregor: That is a really good question. As I said earlier, the scheme has been in creation now for a number of years, and it pre-dates the Verity house agreement. It is a good example of local government working with the Scottish Government and parliamentarians from other parties.

We would prefer no direction—obviously, we would—but we have been consistent in our view that the funding that is raised from the levy should be used to support the services that help to bolster tourism visitor numbers. It is not a case that it is ring-fenced as such; it is additional income to support the services that people rely on when they visit the area, whether that be for holidays or for business.

Visitors put a massive burden on local authorities, as we know, particularly at specific times of the year in Edinburgh, say—although Edinburgh is always busy. The key thing is that the funding was never intended to bolster other

services. It would by definition be ring-fenced to be reinvested into the services that support tourism.

Mirren Kelly: I am happy to support that. The principle is always that we do not support direction or ring-fencing, but the purpose of the funding is to invest in communities. Any money raised by local authorities that choose to invest in the levy would be intended to be used for that purpose.

Stephanie Callaghan: It is a good indication for the future that the Scottish Government, local authorities and COSLA are looking at it in that way. We have already had some examples of different things that we could do to support visitors in local authority areas. We need to make sure that the spend is focused on people who are visiting for leisure purposes. Are there any other examples of that, and should the objectives be widened to cater for business visitors?

Councillor Macgregor: I am sorry—I am just jotting something down. The examples that we gave earlier would be of benefit to anybody who is visiting an area, whether it be for business or for leisure purposes. I do not have a huge amount to add to that. We have been very clear that there are pressures on local authorities, particularly in respect of the street scene, parks, open spaces and waste. There are many things, but the key thing is that we need to be able to invest in them for the benefit of all visitors, whether they are visiting for business or leisure.

The Convener: Thanks for that. Mirren, do you have anything to add?

Mirren Kelly: Just to confirm, for clarity, that we think that the scheme should be expanded to cover business tourists as well as leisure, because there are places where they might have different needs and priorities. We would not want to exclude a significant part of tourism.

Stephanie Callaghan: Can you give some examples of things that you would like to see the expansion relating to? Would that be digital, conference venues or anything else that you think would be helpful?

Mirren Kelly: One of the things is transport. If you think about how business versus leisure tourists might use transport within localities and for travelling to and from localities, that is somewhere where you might have a different response. What we would want is the ability for areas to consult on and consider what would most benefit the tourists, whatever the purpose they are coming for, and the communities as well, as Councillor Macgregor has been saying. Our view is that it should be mutually beneficial. It should help communities and individuals who live in the localities, as well as enhancing the tourist experience for both leisure and business tourists.

The Convener: Thank you for that. It is helpful for us to hear that. I now come to Mark Griffin, who is also attending online.

09:45

Mark Griffin (Central Scotland) (Lab): I want to touch on an issue that the Scottish Tourism Alliance has raised. It said that it would like the national parks to receive a share of the investment from the revenue raised. Councillor Macgregor, do you have any idea of how that could work in practice? The STA suggests that there are multiple local authorities in one national park, so how could that work?

Councillor Macgregor: I do not know an awful lot about that; I am not particularly familiar with the issue.

To go back to the point about shared digital that Mirren Kelly made a moment ago, having a single platform would ensure that local authorities across boundaries could manage the system easily, so I suppose that that could be translated into a national park model. The national parks that we currently have sit across many authorities, so if we had that shared digital platform, it would make it more manageable. However, I am not aware of the ask around national parks.

Mirren Kelly: National parks would also be part of the consultation process, and that would give the opportunity to see how best the local authority might invest, which would include in the national park. We would not support anything that gives automatic direct funding to national parks, because that would be complicated, but they would not be excluded from investment opportunities where they are deemed to be locally appropriate following the consultation with communities, tourism, business and the parks themselves.

Mark Griffin: Thank you. My second question is about a review. If the legislation is passed, what will be a measure of success? Do local authorities have any data about historical spend on the tourism offers versus what it might be after the introduction of a levy, and what should we be looking at in, say, 10 years' time to measure whether the levy has been a success?

Councillor Macgregor: The whole impetus behind setting the levy up is to enhance the offering for leisure or business visitors and to ensure that communities are supported in areas of high pressure. In 10 years' time, therefore, the measure would be whether that investment and the income that came through it had had a positive impact on the locality. We can measure that easily in a local way by asking whether people are seeing a real change in the environment and what they experience when they visit particular areas.

It will be for individual local councils to determine what that success would look like but, for me, the whole purpose of the proposal is to create an income that would, in turn, create a better offer for people who visit an area, city, town, village or whatever. For me, it is about whether it has made a tangible difference to the city and whether people can see that the streets are cleaner, that the bins are emptied more regularly, that the green space is better looked after and is really nicely planted in the summer, and so on. That is the tangible stuff that, as you will know as an elected member, people pick up on and relay back to us.

Mirren Kelly might have some more information on measures.

Mirren Kelly: I will admit that we have not developed a formal position on how we will measure any outcomes from the levy.

There is significant reporting and monitoring of local government spend through the local government finance returns, which are submitted annually. That is where evidence can be seen of the significant reduced real-terms investment over the past 10 years.

That will be an element, but I think that Councillor Macgregor's point is the key one. It is about measuring the success in terms of the experience of communities and visitors within our areas. To be honest, I might take that back to the expert group and leaders to think about how we might consider that.

The Convener: That would be wonderful and very welcome—thank you. I am glad that our questions are useful.

I would like to come back on the national parks. You have talked about the idea of a single platform and said that that could help, and that is welcome. You have also said that the national parks should be part of any local authority consultations. However, if a national park includes five local authorities, it will have to participate in five local consultations. The parks have to do such consultation and are used to it, but I am a bit concerned about the two national parks having to do that work of looking externally and responding, and having to take different approaches. There is an issue there, so I would welcome a bit more thought from COSLA on how that could be approached. For example, there could be a more joined-up approach from the five local authorities that have areas in the park.

Councillor Macgregor: Thank you, convener. All your questions today have been absolutely brilliant and a couple are really testing us, which is good, as it will enable us to better scrutinise certain parts of the bill. Obviously, parts of the industry have raised issues that we are perhaps

not as sighted on. The national park question is another issue that we will take back to the officer group and feed in to ensure that it is given best consideration.

It is absolutely key to the introduction of the bill and its subsequent implementation that we listen, look at areas where there could be problems and tease those out before any introduction of the levy. The process this morning has been really useful. If there is anything additional on that, we will certainly come back to the committee and give you more information.

The Convener: That would be very welcome, in both cases.

That concludes our questions. It has been helpful to have you both here to get a bit more insight and to be reminded a little of the history of the process, which started way back in 2018. I very much appreciate your evidence.

I briefly suspend the meeting to allow for a changeover of witnesses.

09:52

Meeting suspended.

09:55

On resuming—

The Convener: We are joined by our second panel of witnesses. I welcome Tom Arthur, the Minister for Community Wealth and Public Finance, who is supported by three Scottish Government officials: Ninian Christie, who is a solicitor in the Scottish Government legal directorate; Alisdair Grahame, who is a policy adviser in the local government and analytical services division; and Ben Haynes, who is the bill team leader for the Visitor Levy (Scotland) Bill.

Before we move to questions from members, I invite Mr Arthur to make a short opening statement.

The Minister for Community Wealth and Public Finance (Tom Arthur): Thank you, convener, and good morning to the committee. The bill is an important measure and, if passed, will give local authorities a significant new power. A visitor levy can be a force for good, supporting the vitally important visitor economy and bringing benefits to visitors, residents and businesses.

The new deal for business and the new deal for local government are at the heart of the Government's approach to the measure. We have already taken on board the helpful input that we have had from business, local government and others, and I am committed to continuing that meaningful and constructive engagement as we

move forward. This will be the first visitor levy in the United Kingdom, and the Government wants to get it right.

As the lead minister on the bill, I—together with my ministerial colleagues—considered several key policy questions as the proposals in the bill were developed. I will focus on two of those in my remarks.

The first key question was whether it is right to give local authorities this power. The Government believes that it is. Of the 27 countries in the European Union, 21 have some kind of visitor levy, and such levies are commonplace in other locations around the world.

A visitor levy offers councils a significant opportunity: they can use the proceeds to invest in their local economy, bringing benefits to residents and visitors alike. International good practice, highlighted by the European Tourism Association, tells us that local consultation is crucial to a successful visitor levy, and the bill would require a local authority to consult local businesses, communities and tourism organisations. Good local engagement will be really important in ensuring that a visitor levy is well designed and that the funds that it raises are used to best effect.

The second key question that I and ministerial colleagues considered in relation to the bill was the balance between local flexibility and national consistency. That is a common thread going through the on-going debate about whether a national cap is appropriate, the approach that we should take to exemptions and the rules around how funding that is raised by a visitor levy is to be used.

The bill takes a middle way between having too rigid or too lax a national framework. It gives local authorities, which are accountable to their electorates, the ability to create a visitor levy that works for their area, while providing national consistency in areas such as how the levy is charged and remitted. We continue to listen to the variety of views from stakeholders on the balance to be struck between local flexibility and national consistency. We will listen carefully to the committee's views on that, too.

Another issue that I would like to touch on is the potential for a cruise ship levy. The Government recently announced that we will seek to give local authorities the power to create a cruise ship levy. Policy work on that levy is under way, in partnership with local government. That will lead to a formal public consultation, which will allow all relevant groups to provide their input on the proposal. We may seek to amend the bill to include a cruise ship levy, but that will very much depend on whether the policy development work and the consultation have been completed, and on

the view that Parliament takes on the scope of the bill. We do not want to delay the bill and the power that it will give to local authorities if work on a cruise ship levy has not been completed in time for such a provision to be added to the bill.

10:00

The bill is about looking forward. It seeks to establish a measure that can deliver sustained investment in the future. It fits with our ambition of fiscally empowering local government and strengthening local democracy, and with the vision that the Government shares with the tourism industry that is set out in the national tourism strategy, "Scotland Outlook 2030: Responsible tourism for a sustainable future".

I very much welcome the committee's scrutiny of the bill, and I look forward to members' questions and the discussion ahead.

The Convener: Thank you for that helpful opening statement. It is good to hear that you have been listening to a variety of views through the process.

I will ask a number of questions about the general aims of the bill. Over the time that we have been taking evidence, we have heard from representatives of accommodation providers that the bill gives the impression that Scotland has a problem with tourism and that there might be a risk of reputational damage. In addition, concerns have been voiced about the impact on Scotland's competitiveness. What are your thoughts on those two perspectives?

Tom Arthur: Scotland is a world-class tourist destination, and that is down to the professionalism, dedication and hard work of all the people who work across the visitor economy in Scotland. The bill is about creating a discretionary power for local authorities, which are democratically accountable to their electorates. They will be able to determine whether to use the power to raise additional revenue to invest in the visitor economy. That is why we have put at the heart of the bill a requirement for local authorities that wish to introduce a visitor levy to consult and to set out what they understand would be the impact of the levy.

I see that power having the potential to generate valuable extra investment to enhance, support and develop the world-class offering that Scotland already has. Such local flexibility is important, because it will allow local authorities that are considering introducing a levy to develop—in consultation with business, their communities and other interested parties in their area—a levy that will add value and provide a significant return on investment.

I recognise, as does the Government, the immense contribution that the visitor economy and the accommodation sector make to Scotland. We see the bill as providing an opportunity for the proposed discretionary power to be used to help to enhance that offering.

The Convener: Thank you for that. To continue the theme of concerns that have been raised by business groups, one company told us that the bill appears to be offering “localism for localism’s sake”. I would be interested to hear your thoughts on the concern that the proposal for local flexibility and variations might lead to confusion and complexity for customers and businesses.

Tom Arthur: As I touched on in my opening statement, I very much recognise the importance of getting the right balance between ensuring national consistency and avoiding any unnecessary administrative variation. We are talking about allowing local areas to have the flexibility to respond to the assets and needs of their particular areas. What would be a powerful and logical investment in the visitor economy here in Edinburgh might not necessarily be so in another part of Scotland—for example, in the Highlands.

We are seeking to provide local flexibility to allow local authorities, through consultation with business and those who are active in the visitor economy in their area, to ensure that revenue is raised and that the way in which revenue is raised through the visitor levy scheme is appropriate, responds to those local circumstances and gets the best return on investment for each particular area.

The Convener: It is good that you have highlighted that local authority authorities will not just do that; they will be required to carry out a consultation with stakeholders.

My third question is about the concerns that have been raised that the visitor levy will, effectively, be a tax on accommodation providers rather than a tax on visitors. What are your thoughts on that?

Tom Arthur: I am conscious of the need to talk about a visitor levy—I am deliberate in my use of language when talking about that. It is an opportunity to raise revenue that will be invested back into the visitor economy. To address your question about where the charge lies, there needs to be an efficient and effective way of administering the tax. In this case, just as businesses would collect other taxes, that would be the process by which the levy would operate. For example, if a charge was to be paid directly by a visitor from another part of the world, there could be difficult challenges to do with compliance and

enforcement for people who live outwith the jurisdiction in which we operate.

I am keen to continue to engage with businesses, as we have been, in order to ensure that we have an administrative regime that is as efficient and as light touch as possible and that we find national consistency where we can. That is also why we asked VisitScotland to convene an expert group with representatives from local government as well as the visitor economy. That is important because it will enable those representatives to develop best practice and guidance to support local authorities in their implementation of a visitor levy, should the Parliament pass the bill and should local authorities choose to use that power.

The Convener: It is good to hear about the VisitScotland expert group and that we are getting the insight from people who have experience in those areas. I will move to questions about how the levy revenues will be raised.

Pam Gosal: In your opening statement, minister, you spoke about how it is important to strike the balance between having national consistency and local authority flexibility. In evidence to the committee, some witnesses said that they would prefer a percentage rate and some said that they would prefer a flat rate. However, the industry appears to be of the view that it would like to adopt a flat rate to make it simpler to collect the levy. Do you think that the bill should be amended to allow local authorities to introduce a flat rate if they decided that that was the most appropriate route?

Tom Arthur: That is an excellent question. I appreciate that that is one of the key issues that has emerged from the committee’s deliberations. Certainly, it has been raised consistently with me and my officials in our engagement with accommodation providers. As a starting principle, I hope that we can all agree that there should probably be uniformity—there should be either a flat rate or a percentage fee. Accommodation providers may well look for consistency. If we are going to have a percentage rate, then that is what should be in the bill and should be applicable across all local authorities that are seeking to use the power. Conversely, the same applies to a flat rate.

I recognise that there are strong views in support of both arguments. Clearly, a percentage rate would allow for a more proportionate and progressive approach. It would recognise that, for example, someone who is staying in a suite in a five-star hotel would be subject to a different rate than someone who is staying in budget accommodation. I am conscious that that will be a key concern. However, I also recognise questions that the industry has raised about the compliance

and administrative burden that that approach would entail. I appreciate that the options for a flat rate range from a single flat rate to a tiered structure. With a tiered structure, we would potentially start to add in additional complexity, which a flat rate, rather than a percentage rate, would be seeking to remove. I think that it is important to consider the matter in detail.

I am very open to having these discussions. I am keen, on this issue and a number of others, to understand the view that the committee has formed when it publishes its stage 1 report. I am open to looking at amendments to change to a flat rate, but that would require further detailed consideration and engagement with industry. I am also happy to follow up with the committee on the matter ahead of stage 2.

There are strong arguments either way. I recognise that industry has a strong view and that local authorities have a mix of views. As I have said, I want to ensure that we can have a system in which the levy that is applied is fair and progressive and that, equally, is efficient and straightforward to administer, and does not impose undue burdens of compliance, particularly on smaller operators.

Pam Gosal: You mentioned consistency. We heard from witnesses who have looked at international models where both flat rates and percentage rates are applied. Irrespective of the type of rate, would it be Government or local authorities that would set it?

Tom Arthur: At this stage, my view is that it would be for Parliament to determine whether a flat-rate model or a percentage-rate model is applied.

Again, I do not want to rule out any particular position. I am open to hearing views, because I recognise that there is a range of them. A compromise position would potentially be to allow local authorities to determine that themselves, but I am conscious that there might well be a view from industry that that would just add further complexity. One of the motives for having a flat rate is the complexity that is involved in administering a percentage rate, particularly for smaller operators. If we had a set of circumstances whereby there was variation between local authorities, with some applying a flat rate and others applying a percentage, that would not address the issue of complexity.

The levy would need to be applied in a way that is consistent with the new deal for business and the new deal with local government. I would want to explore the issue in further detail to understand what the views are of local authorities and businesses. I recognise that industry is leaning

towards a flat rate and that local authorities' views are mixed.

My view is that what we settle on in the legislation will ultimately be a matter for Parliament to determine. At this point, from my perspective, Parliament should seek consistency: it should be either a flat rate or a percentage rate.

I do not want to pre-empt further discussions with colleagues in local government to understand what their views are. The scheme in the bill has the stated objective of simplifying administration. However, I am conscious that, were we to change what is in the bill—that is, move from a percentage rate to a flat rate—that objective could be undermined by taking an approach that further complicates things. Such complexity might be as a result of local discretion or the unintended consequences of having a tiered system of flat rates, which could help to address some of the issues to do with it being a less progressive approach than a percentage rate, but could also further complicate matters.

I appreciate that there is a lot of complexity in that answer. I am very keen to hear the considered reflections of the committee in its report, and I will be engaging further with the sector and local government ahead of the stage 1 debate and stage 2.

Pam Gosal: My next question is about having a national cap. Although local authorities are not generally keen on having a national cap, the tourism sector has called for a cap to be set nationally if the percentage rate remains the only option for local authorities. What is the Government's response to those views?

Tom Arthur: Clearly, the question of a national cap is predicated on the measure in the bill to have a percentage rate. That could change, depending on the view that Parliament takes as we move to consideration of amendments.

I recognise why there are calls for a national cap, but I am very much committed to the levy being about empowering local government and doing it in a way that is consistent with the new deal with local government.

Although there are delegated powers in the legislation that would allow ministers to amend and specify details of what is required in legislation, those are useful provisions that would help us to respond to circumstances and future changes, whereas a national cap could be perceived and might well be regarded as an intrusion into the autonomy and decision-making space of local government.

Part of the process of consulting and engaging involves local government assessing the impact that a visitor levy would have. In determining

whether the levy should proceed under the bill as introduced, using a percentage rate, local government would want to consider what the economic impact would be, recognising that there is a balance between a percentage level that would raise sufficient revenue to fund the reinvestment in the visitor economy, as set out in the scheme, and a level that was so excessive that it could start to have a negative economic impact.

10:15

I would want to trust—as I think we all would—democratically accountable elected members in local government to take that decision, although I recognise the concerns of the industry. I am keen to have further dialogue and engagement on that. It is very important to me that we proceed in a way that is as collaborative as possible—involving business and local government, as well as the views of Parliament.

My instinctive view, as has been reflected in introducing the bill, is that the decision on the level would be for local government to take, but I recognise the concerns that have been raised and I want to explore the point further with local government and business. Of course, I would also take the opportunity to reflect on the committee's views on the matter.

The Convener: I wish to return to the point about the flat rate and the percentage rate. Something interesting came up with COSLA, in our previous panel, involving a request for ultimate flexibility and the ability to choose a flat rate or a percentage rate at the local level. I take your and others' point that we are trying to create something that is user-friendly, simple, efficient and so on.

COSLA said that there are on-going discussions in quite a number of areas, but I wonder whether there has been discussion of the potential for an information technology platform for the process of calculating, collecting and auditing. If one local authority went for a flat rate and another went for a percentage, a digital IT platform could take the difficulty out of that. COSLA mentioned that it is exploring that with its digital IT team. Has the expert working group had any discussions about exploring the possibility of using IT to help us in that way?

Tom Arthur: I do not believe that the expert working group has had specific discussions on that. More broadly, digitisation of public services is a significant area, as we have discussed in many committee meetings. It has also been discussed as part of our broader work and engagement on changes and improvements to the administration and operation of the non-domestic rates system,

although that is more of a medium-to-long term piece of work. It is a live matter.

We would have to consider the timelines for when such a system would become operational, and we would need to consider its scope. There is an interesting point to be made about variation between authorities. The bill allows two or more authorities to work together to develop a visitor levy for a particular area. That is of particular interest for our national parks. There are a number of factors to consider.

I am conscious that, should the bill progress through Parliament and be approved in a reasonable timescale, the earliest that a visitor levy would become available or go online would probably be the first half of 2026. There would be a question about whether a new platform would be developed and operational by that point. I will be keen to pick up discussions regarding administration of that from a local authority perspective, in considering amendments ahead of stage 2.

I appreciate the point that has been made by local government colleagues about ensuring maximum flexibility, but we all recognise that we want a system that commands the full confidence of business, through ensuring that operation of the system is as straightforward and streamlined as it can be while allowing local autonomy so that, ultimately, the revenues that are raised can be reinvested in the way that is most impactful and that gets the biggest return on investment for the visitor economy.

The Convener: Thanks for that response. I hear your point about streamlining things for business. That takes me back to our evidence from local authorities in which we heard how, of the two authorities that were most impacted by tourism, Edinburgh wants a percentage rate, while Highland is asking not only for a flat rate but for the ability to bring in a tiered system. It is interesting that we are not getting a consistent picture across local authorities. There is local need to consider, and I think that both authorities are quite far down the line in the work that they have done and in their keenness to bring the levy in. It is important to consider those perspectives, but I take the point that a digital platform that will work will take time to create and implement.

Marie McNair: Good morning, minister and officials.

With regard to the announcement that the Scottish Government might seek to amend the bill to include cruise ships, I welcome your earlier comments on the proposed consultation. What engagement was there with the cruise ship industry and the port authorities prior to the announcement being made?

Tom Arthur: There has been some discussion and engagement. I should say that it is not an entirely new proposal—it has been made by various advocates over a number of years—but with the announcement we have made it clear, consistent with our approach in the new deal for business, that there will be detailed engagement as we move forward. A working group that includes Scottish Government and COSLA officials is already looking at the matter.

Clearly, amendments that seek to make provision for a cruise ship levy will be determined by the pace of progress, and we will need to have a public consultation. I know that it is of vital importance to colleagues in COSLA and the Government that we are able, subject to Parliament's agreement, to pass the bill in a way that allows the powers to come online, as we hope, in the early part of 2026. I therefore do not want to find myself in a situation in which further work is required to develop a cruise ship levy model, which will hold up the work of the bill.

If we make sufficient progress, complete the public consultation and have the required level of engagement with industry and local government on a cruise ship levy, I am open to amending the bill to include the provision. However, it is important that we get that right. I would not want to rush things unduly, but if this is going to take more time I would not want it to hold up the bill's progress through Parliament.

Marie McNair: Thanks for that response.

One criticism of the bill from some rural areas is that certain issues relating to motorhomes and wild campers are not covered. What can the Scottish Government do to explore how such visitors might be included in the scope of the bill?

Tom Arthur: Other areas with regard to motorhomes and wild camping are covered elsewhere in our overall tourism and visitor economy work, and in management of some of the challenges that have arisen. One challenge with motorhomes, for example, relates to administration, compliance and enforcement issues. How do we determine what is the chargeable event in such cases? The legislation contains quite a clear definition of the chargeable event with regard to overnight accommodation: if, for example, a motorhome went to a campsite that was subject to the visitor levy, that would be captured. Where that does not happen, the question is how we would administer the levy. We are not familiar with many—or, indeed, any—examples of a particular levy or charge on motorhomes. One example might be New Zealand, if I am correct, but in that case, there is a very defined geographical area with a single point of entry.

I am open to further discussions on the matter, but the issue raises challenges around administration, and we would have to find some way of being consistent with how the bill is drafted. As I have said, we have talked a lot about wanting to ensure that any system that we put in place is straightforward for business; we want to ensure the same thing for the tax authority, which would, in this case, be local government.

Ben, is there anything that you want to add about motorhomes and camper vans?

Ben Haynes (Scottish Government): Work is under way. A visitor management group that is led by VisitScotland has been established to seek a cross-government approach to addressing the issues that can sometimes exist around motorhomes. I also echo the minister's point that we are open to engagement and discussion with stakeholders on that, but are aware that the chargeable event for a motorhome looks very different to the chargeable event in the bill.

Marie McNair: Finally, the committee heard suggestions that some providers are covered that should not be covered by the bill, including boat moorings. Minister, would you like to respond to that suggestion?

Tom Arthur: I have been grateful for the engagement of the sector. I particularly want to mention our parliamentary colleague Stuart McMillan, who convenes the cross-party group on recreational boating and marine tourism. I had a meeting with that group earlier in the autumn, and it raised a number of issues. I am again grateful to Mr McMillan, who is convening a round-table meeting with the sector on Friday, which I will attend for further discussion.

Clearly, concern was expressed that the legislation might unintentionally capture certain activity in a way that was not consistent with the policy intention. We are having close discussions to ensure that such issues are fully understood. If required, we will lodge amendments to clarify the position at stage 2.

I am familiar with the concerns that have been raised by the sector, and I recognise them. I am grateful for the sector's considered engagement. We will take that matter forward on Friday this week to ensure fully that there is no unintentional capturing of particular activities in a way that would be inconsistent with the policy intent of the legislation.

Pam Gosal: Minister, you said in your opening statement that it is important that the levy is spent in the local authority areas where it is collected. I raised concerns, last week and with the witnesses in today's earlier evidence session, about whether the revenue from the visitor levy would be used to plug holes in council budgets. That is a grey area.

How do you respond to concerns that, in essence, tourists and businesses are paying the price for the Scottish Government's inability to give our councils a fair funding deal for years? Do you agree that the revenue should be ring fenced for tourism-related spending? How do you foresee that working in practice? In particular, how does it fit with the spirit of the Verity house agreement?

Tom Arthur: Revenue that is raised through a visitor levy is not intended to substitute for any other revenue. The revenue that will be raised is to be hypothecated for spend on facilities and services that help and support the visitor economy. That is clearly defined in the legislation. Local authorities have to account for the income separately, they have to publish a report and they have to review the scheme after three years.

Prior to the introduction of a scheme, there is a requirement to set out the proposed scheme's objectives. The objectives must be consistent with the definition in the bill of supporting the visitor economy. That is clearly set out. If there are particular concerns around the specific wording or the definition that is used by industry, I would want to have discussion and engagement to ensure that there is clarity.

We have sought to be very clear in the bill that revenue that will be raised from the visitor levy is to be accounted for separately, that there must be transparency about how it is spent in terms of intention and reporting, and that decisions on how a scheme is developed—that is, what the specific local objectives will be—will be determined by the local authority through engagement and consultation of accommodation providers, destination management organisations, businesses and communities in their area.

If there are specific concerns around the wording, I am more than happy to hear those, but the clear policy intent is that the revenue will be used to support the visitor economy. That is of paramount importance to me.

Equally, we need to ensure that there is a balance between giving confidence and certainty and recognising the degree of flexibility that is required so that local authorities can respond to the assets and needs of their particular areas.

Again, if there are concerns about any specific aspect of the wording, I am more than happy to have engagement on that to ensure that we have wording that commands the confidence of local government and business.

10:30

Pam Gosal: How do you see that approach working in grey areas? In the past couple of weeks, we have spoken about bins, roads and

potholes. One assumes that they are the day-to-day responsibility of councils, which are experiencing cuts. Tourism and the visitor economy use such facilities, too. How will the balance be struck to ensure that day-to-day work is funded not from the levy but from the budget, as it should be?

Tom Arthur: That question is absolutely fair and reasonable. In response, I say that there could be a temptation to get into a prescriptive list of what is in or out of scope, which would clearly be counter to the bill's intention, which is about fiscal empowerment of local government, so that it can determine how the revenue is spent in a way that is consistent with legislation.

I would not want to prejudge what those who are involved in the visitor economy in an area might regard as priorities for their area. I recognise the concern that you express, which is that the legislation could be interpreted too liberally and the revenue could be used in a way that was felt to be not consistent with the bill's principle of supporting the visitor economy. That is why we have a provision that requires consultation.

If a local authority seeks to introduce a visitor levy, it will have to set out a scheme that is consistent with the objectives. It will have to consult businesses and the community to capture all the various parties and interests. The local authority will have to set out what it believes the impact will be and it will have to report on that. That will ensure transparency and clarity.

Ultimately, such decisions will be taken by elected members who are democratically accountable to their electorates. If there are concerns about the wording, I will be more than happy to have conversations about that.

However, I do not want to get into ministers devising prescriptive lists of what is within and outwith scope. As well as undermining local autonomy and accountability, which are at the heart of the new deal with local government and what the bill seeks to do on fiscal empowerment, that could have unintended consequences. It is not for me to say what the priority is for stakeholders in the visitor economy in one part of the country; I recognise that that can differ.

It is fair to ask the question. If there are concerns about wording, I am more than happy to explore them further in order to ensure that we get the bill right and that it commands confidence.

The Convener: It is good to hear your thoughts on that. To continue on the theme of how revenues will be spent, I bring in Stephanie Callaghan, who joins us online.

Stephanie Callaghan: Thank you for coming to the meeting, minister. The bill requires the money

that is raised to be spent on services that will benefit the people who visit a local authority's area for leisure purposes. Why was that requirement included?

We heard from Mirren Kelly that business visitors might have specific requirements around travel. Do you see a need to widen the bill's objectives to include business as well as leisure? Do the original plans for engagement and the scope satisfy such needs?

Tom Arthur: The question is interesting because we can see that broadening the definition could involve a tension. Another request is that the definition be narrowed. I am not saying that we have necessarily nailed it and got into the Goldilocks zone, where the definition is perfect, but we have got pretty close to it. I reiterate the commitment to engage further with industry and local government on the wording.

The point about business visitors is important. Given that Scotland has such a strong events sector, we must be cognisant of that.

The requirement is in the bill because the policy intent that has developed over a number of years is that the levy is to generate revenue specifically for the visitor economy, as opposed to being a general revenue-raising tool. If it was to move to be a general revenue-raising tool, we would have to recognise that there is significant variation in the size of the visitor economies in the different parts of Scotland, which means different economic impacts. A visitor levy being applied in such a context would create significantly different and varying revenue-generating opportunities. A general power of that sort would understandably invite questions around equity and fairness and about how it would play into the overall local government funding formula.

That is not what the proposed legislation is about, however; it is about creating a discretionary power for local authorities, which can raise revenue from the visitor economy to support investment in the visitor economy with, I hope, the ambition of increasing the offering and ensuring that we have a sustainable future for our tourism sector by enhancing the world-class offering that we already provide.

Stephanie Callaghan: Thanks very much for that, minister. It is good to know that there is still openness and that there is listening going on. That might well come into my second question, too.

The Scottish Tourism Alliance wants the national parks to

"receive a fair share of investment from the revenue raised from the visitor levy".

Do you have any ideas about how that might work in practice, given that one national park authority

might span up to five local authority areas? Do you have any views on the potential for a regional levy scheme or something else?

Tom Arthur: I have met representatives of both of our national parks and have had some very useful discussions. Again, I would be grateful for the committee's views on this, but one thing that I have taken away from those discussions is the need to consider whether there must be any further provision in the eventual legislation on engagement with the national parks. That said, I recognise that the scheme is for local authorities to administer as the tax authority.

The bill as introduced provides the ability for two or more local authorities to work together. You could imagine, for instance, authorities that share areas of a national park working together on developing a specific levy that would cover the park, but that would be a decision for individual local authorities working together collaboratively. Similarly, on the point about a regional approach, the provision in the bill to allow local authorities to work together would allow a number of councils to collaborate on a visitor levy and to make decisions, through consultation and engagement, on how that revenue can be utilised most meaningfully and impactfully within their particular region. Again, though, those decisions will ultimately be for individual local authorities to take.

Notwithstanding that, I reiterate that I will consider what further measures might be required to ensure that the voice of the national parks is appropriately recognised—including in the proposed legislation, if necessary. I think that there is sufficient flexibility there. I am keen to ensure that the framework provided by the legislation is as straightforward to administer as it possibly can be, while retaining flexibility to allow local authorities to respond, either individually or collectively, depending on the needs and assets of their particular areas.

Stephanie Callaghan: Thank you.

The Convener: I call Miles Briggs.

Miles Briggs: Good morning, minister, and good morning to your officials, too.

I want to get some clarification on cruise ships. Two weeks ago, your Green ministerial colleague was quite clear that they would be part of the bill, but I think that what you are saying today is that there will need to be a consultation. Given that we are scrutinising the bill now, it is probably unlikely that cruise ships will be included in the eventual legislation. Is that right?

Tom Arthur: To be clear, a public consultation will be required. If we make quick progress—depending on the parliamentary timetable for the bill—there might be an opportunity for

amendments. However, I do not want to unduly rush the development of a cruise levy proposal, and I would not want it to have any impact on the projected timescales for the eventual legislation.

Miles Briggs: My questions relate to exemptions, which is a matter that I have been trying to pursue throughout our work on the bill.

Currently, in the bill, the Government proposes a voucher scheme. To date, it has not been clear how accommodation providers would be able to check whether individuals who thought that they were not eligible for a visitor levy were actually eligible or not. What work is going on in that respect, given the broad consensus that some people should not pay—for example, those who are visiting children in hospital or family members in prison? Actually, quite a broad range of people should, I think, be exempt.

I realise that at the minute you are answering quite a few questions from me on this issue, but it is quite important that we get it right before the bill is administered, likely by hotels and individual businesses. What is the Government's thinking on how exemptions will work in practice?

Tom Arthur: That question gets to the heart of the issue of national consistency and local flexibility. I appreciate that a view might be formed in the Parliament that, regardless of location, certain categories of individual circumstance should be exempt. However, I am also conscious of the importance of local autonomy in deciding what is best for a particular area, and of the need to ensure as much administrative simplicity as possible for local authorities and businesses. The legislation allows for exemptions to be determined locally. The expert group has undertaken work on best practice and guidance, and it could consider that as part of its work.

As for getting the balance right in this respect, I want to ensure that, beyond what is in the bill, business, communities and local government have the opportunity, through working together and engaging through consultation, to determine the best suite of exemptions—if any—for their particular area.

Ben Haynes: I will just add a couple of things. The expert group has had an initial discussion about exemptions, and producing guidance on them is very much in its work plan. The Scottish Government is facilitating a discussion between business organisations on the one hand and local government on the other on the best way of administering any exemptions that are put in place.

You are right that the bill contains provision for a voucher scheme, but it is just an option for a local authority, if it wants to go down that route. We do

not have any set views on how exemptions should be administered.

Miles Briggs: Thanks for that. It is important that clear work is done on the issue, because a broad range of people have said that they want certain people to be exempt. An accommodation tax is, by its very nature, not just about tourists and visitors, but there is no detail on how it is going to be administered not just by businesses and not necessarily in councils. The voucher scheme itself does not seem to cover that. It is really important that the matter is looked at, if it is taken forward.

Tourism organisations have made some criticisms about certain assumptions and calculations in the current financial memorandum. What is the minister's view on that? You have touched on some of the potentially changing environments that we might see before the bill comes into force, but what about, say, online platforms and credit card charging? How will small businesses be able to administer that sort of thing?

Tom Arthur: We have sought, particularly through work on the extensive business and regulatory impact assessment, to detail our understanding of the various costs of compliance and administration. I will ask Alisdair Grahame to give a bit of background on how that work has been developed and what our current understanding is.

Alisdair Grahame (Scottish Government): The BRIA was informed through engagement with businesses, both through our national discussion in 2018 and through consultation responses from our public consultation in 2019. That was followed up in 2019 by 20 face-to-face interviews with individual businesses from the overnight accommodation sector. After a pause in the bringing forward of legislation, which was due to the pandemic, a follow-up survey was issued to those businesses, with a particular focus on understanding the compliance challenges associated with the bill's specific proposals.

We have also been engaging with officials involved in administering tourist taxes in Nice, Amsterdam and Toronto to understand the resources required in collecting visitor levy-type taxes in other contexts. In addition, we have been engaging with third-party online travel agencies such as Booking.com and Airbnb and with property management system providers to understand how their systems will interact with the introduction of a visitor levy.

10:45

Miles Briggs: Has the Government been in touch with the Manchester scheme, which is the

only scheme that is currently operational in the UK?

Tom Arthur: The Manchester scheme is distinct, as it is a business improvement district model rather than a local authority-administered visitor levy. There is consideration of a BID model in the BRIA. In partnership with local government and through engagement with business, we have sought to take a different approach in which the levy is administered by the local authority. With BIDs, there is a balloting process that can create uncertainty about the longer-term stability of revenues, whereas with a local government-administered scheme work will be on-going through the requirement to consult and there will be democratic accountability through elected members taking the decision locally.

Although there are various ways in which the BID model could be considered to meet the policy objectives, it was not deemed capable of doing so. Hence, we have taken forward the visitor levy approach for local authorities, as set out in the bill.

Miles Briggs: Okay. Thank you.

The Convener: Willie Coffey will continue on that theme.

Willie Coffey: Good morning, minister and colleagues. You must be aware of the discussion around the £85,000 VAT threshold, which has been discussed at several of the committee meetings on the bill. There is a fear that the levy might push smaller businesses beyond the £85,000 limit so that they would be liable to pay VAT. What does the Government have to say to businesses that might fall into that particular trap?

Tom Arthur: I recognise the points that have been raised. Clearly, VAT is a reserved tax. At the introduction of the bill, I wrote to the UK Government, which has responded to set out its views, and we have shared that correspondence with the committee. Given that the levy will be locally administered, local authorities that are considering introducing a visitor levy will have to take the VAT issue into account. The bill sets out a requirement to consider the impact of introducing a visitor levy, so local authorities will have to consider that carefully.

That speaks to the importance of the process of consultation and engagement that is required to precede the introduction of a visitor levy. It is a fair and legitimate point that has been raised. Should the bill be passed, it will be for local authorities that are considering introducing a levy to take that into account in their decision making.

Willie Coffey: Some businesses have said that they might have to reduce the number of bed nights available so that they do not cross the threshold, which sounds as if it runs counter to the

aims of the policy. You say that it is down to local authorities to try to manage that but, frankly, I cannot see how they can avoid the issue. VAT is paid on the levy, and that is chargeable and so on.

Tom Arthur: There are a number of flexibilities around how a scheme can be developed. For example, there are flexibilities relating to particular areas in the local authority and to the timescales in which the levy applies. Those flexibilities can be applied to address a range of aspects of how a levy should be administered and applied in a local area. There are flexibilities that local authorities could deploy in response to some of those considerations, but it would be for local authorities to take into account the circumstances of businesses that are trading just below the VAT threshold. I recognise that that is a consideration that many businesses, particularly small businesses and microbusinesses, have to take into account.

I reiterate the importance of consultation and engagement and of local authorities being able to set out their understanding of the impact of introducing a levy, and how crucial all that is to ensuring that this sort of thing is taken into account.

Willie Coffey: As we understand it, the bill permits local authorities, but not local businesses, to recoup administrative costs. How does the Government see that issue, which has been discussed several times over recent weeks?

Tom Arthur: I am not aware of any tax operating within the UK where the costs of compliance can be reclaimed, but there would be nothing preventing a local authority, should it choose to do so as part of its way of operating the levy, from supporting businesses with or reimbursing them for the cost of compliance. However, that would be a matter for an individual local authority to determine.

Perhaps I can confirm this with Ben Haynes. Ben, are there any examples of such costs being reimbursed?

Ben Haynes: We are not aware of any examples in the UK of businesses being able to extract from the tax the costs of administration. There is no precedent in that respect that we are aware of.

Willie Coffey: Is it correct to say, though, that the bill allows local authorities to recoup their administration costs?

Tom Arthur: The revenue would be net of administration costs—it would be deployed to support the scheme's objectives—but there is nothing to prevent a local authority from using a portion of the revenue generated from the scheme to support accommodation providers with their

compliance costs. Again, though, that would be a matter for a local authority—it would be at their discretion. Local stakeholders might consider engaging with the local authority on this, but, as I have said, it is a matter for the local authority.

Willie Coffey: That was quite helpful. Thanks for that.

The Convener: Thanks, Willie. It was helpful.

I call Mark Griffin, who joins us online.

Mark Griffin: Good morning, minister. If the legislation passes through the parliamentary process and is implemented, what will be the key ways in which we should measure its impact? What should our successor committees be looking at in 10 years' time to see whether the bill has had the desired effect?

Tom Arthur: It is an important question. After all, it helps to think about post-legislative scrutiny right at the outset, even though we are still to have the stage 1 vote.

There are two aspects to think about, the first of which is the opportunity for continuous monitoring based on those local authorities that choose to introduce a visitor levy. They will be required to report after 18 months, with the introduction of an annual review after three years, and that approach will in itself provide a degree of data that can be interrogated and analysed to understand how the visitor levy is operating in particular areas.

I think that any issues that might be raised or suggestions for improvement that are made on the framework for administration as set out in the legislation will come out through the work on the new deal with local government, with the Verity house agreement and that close engagement with local government. Parliamentary engagement with local government through COSLA would, through the cumulative process of different local authorities taking forward the levy, afford opportunities for learning with regard to any suggested improvements or ways of measuring the impact, both cumulatively across Scotland and within individual local authorities. What would be equally important from a Government perspective would be the opportunities through the new deal for business and that close engagement for feedback and consideration, including on the cumulative impacts of a visitor levy on other legislative or regulatory requirements. Again, relevant parliamentary committees that engage with business would have that opportunity, too.

With regard to being able to anchor that objectively in data, the reporting and review requirements that are set out in the legislation for local authorities would, in the first instance, give an indication of what impact a visitor levy is having and whether a visitor levy in a specific local

authority is meeting the objectives set out in the scheme. Over time, as we go through that process, learning will take place. There will be a process of learning and engagement for any local authority that takes forward the visitor levy. Through consultation with businesses and their communities, local authorities will have opportunities to determine what works best. I imagine that, through the review process, there will be a reflection on what has worked well and what has perhaps not achieved the aims that were set out. That will inform future iterations of the visitor levy, should a local authority choose to continue with it. Through the review and reporting and the on-going dialogue that takes place between business, local government, Parliament and the Scottish Government, there will be ample opportunity to evaluate and measure the impact of the legislation.

The Convener: I thank Mark Griffin for his question and I thank the minister for his thoughtful and extensive response to the issue of how we measure the impact. I imagine that it is also something for local authorities to ask in their consultation.

Stephanie Callaghan has a supplementary question on that matter.

Stephanie Callaghan: Minister, there seems to have been limited thought around data collection to measure the success. Although the bill will be delivered by local authorities, I imagine that the Scottish Parliament will ask the Scottish Government for evidence of the bill's success. I am really interested to hear any thoughts that you might already have around what quantitative or qualitative data might be key to measuring what is working really well. For clarity, are you saying that there is likely to be a common framework for measuring key quantitative and qualitative data and outcomes across all participating local authorities?

Tom Arthur: First, local authorities routinely consult and engage on a number of issues, and they are best placed to determine how that process is carried out. The levy would be a local government scheme operating within legislation that is determined by Parliament. Ultimately, I imagine that Parliament will take an interest in how it is operating and that future committees will want to explore post-legislative scrutiny of that.

With regard to it being a local power, as I have set out before, there is transparency in the various requirements around consultation and reporting. I imagine that consideration will be given, in particular, to what the stated scheme objectives are for the deployment of revenue generated from a visitor levy, to whether those objectives are met and, if they are met, to what degree. As I touched on earlier, that will inform future iterations of the

visitor levy, should a local authority seek to continue it. I imagine that, following the introduction of the levy, business and communities will expect there to be keen interest in continued engagement with local government. Those are obviously matters for individual councils to consider in a way that is consistent with the legislation. However, for that to be a success, it will require collaboration and partnership working, which are inherent in the requirement to consult and engage. From my engagement with local authorities that have expressed an interest in taking forward the visitor levy, I know that there is a strong desire to work in partnership with the communities and businesses that they represent, to ensure that it can be a success.

However, the important thing is to set out clearly, through consultation, what the scheme's objectives are. Reporting on that will give important data to evaluate and measure specific objectives. Clearly, in addition, over the medium to longer term, further work can be undertaken on the economic impact and analysis can be done of whether those interventions and objectives have proven successful in enhancing the performance of the visitor economy in a particular area. Those matters will be for local authorities to determine, just as all governments routinely review their broader suite of policies.

11:00

Stephanie Callaghan: I was a local authority councillor. We sometimes find ourselves comparing apples to pears, because authorities measure things according to their own priorities. It would be good to have some comfort that all the participating local authorities will be encouraged to agree on the key data that they are looking at, so that we do not find ourselves in a couple of years' time looking back and scrambling to find comparable data from across different local authorities.

Tom Arthur: I imagine that there will be a desire from local authorities that choose to take forward a visitor levy to learn from what other authorities do. That might particularly apply to neighbouring authorities or to those whose visitor economies share particular characteristics.

It is important to note that the reporting structure that we have set out in the legislation is a locally administered power and is for local authorities to determine. The visitor economy in Edinburgh will be different from that in parts of the Highlands. The structure allows for local evaluation of the effectiveness of the visitor levy.

The requirement for transparency—which will include separate accounting, reporting on consultation and a review—will ensure fair and

thorough evaluation of how the scheme is operating. That information will be transparent and will be available to all who want to engage with or consult it or who want to use it as the basis for their engagement with a local authority on the visitor levy.

The Convener: Thank you for that question, Stephanie. Although there is nuance and a need for local flexibility, there would probably be three things that would touch all local authorities and that you could put into a reporting framework, with flexibility around that. I take the point that that might be something for COSLA to look at, rather than it being part of the legislation that Parliament agrees on.

Tom Arthur: That would be a matter for COSLA and for local government. I am sure that there will be a recognition that we can all learn from each other and that any local authorities that are considering introducing a visitor levy will be keen to understand the experiences of other authorities that may already have introduced one.

It is for Parliament to determine its interests, but I can imagine it responding to the aggregate feedback about how the administrative framework provided for by the legislation is operating and, in the medium to longer term, considering the broader impact on Scotland's visitor economy. Those will be matters for Parliament to determine. Subject to the legislation passed by Parliament, the Government, as part of the new deal with local government, will continue engaging closely on those matters and other shared priorities.

The Convener: I appreciate you all coming this morning. Thank you so much, minister, for your thorough and in-depth responses. I get a sense that there are some areas where our questions have shown that more work needs to be done. It will be interesting for us to consider that in our report and to reflect that back to you.

Tom Arthur: I am very grateful for the extensive work that the committee has undertaken on this matter and I say with all sincerity that I am very keen to understand the committee's views in response to some of those questions. My absolute priority is to ensure that we get this right. The levy could be a real force for good for the visitor economy in the parts of Scotland that choose to introduce it. The key to achieving that will be to continue working closely in partnership with local government, business and Parliament.

The Convener: That is very welcome; thank you.

That concludes our evidence-taking on the Visitor Levy (Scotland) Bill. The committee will produce a report on its findings in the coming weeks.

I suspend the meeting to allow for a change of witnesses.

11:04

Meeting suspended.

11:11

On resuming—

Council Tax Freeze

The Convener: The next agenda item is evidence taking on the council tax freeze from Tom Arthur, the Minister for Community Wealth and Public Finance. Mr Arthur is joined by Ellen Leaver, deputy director of the Scottish Government's local government and analytical services division. I welcome our witnesses to the meeting.

We had hoped to hear from COSLA representatives on this topic but, unfortunately, they were unable to attend. We hope to hear from COSLA at a future meeting.

We will move straight to questions. We had a COSLA representative online earlier, for the session on the visitor levy, and it was good to hear from Councillor Gail Macgregor that there had been good communication between COSLA and the Scottish Government in that process. She sounded positive about it.

It is interesting, though, that local government was not made aware of the decision to freeze council tax prior to its being announced. I would be interested in hearing your thoughts on how that has impacted the relationship between local government and central Government.

Tom Arthur: I am grateful for the opportunity to answer questions on this issue.

We very much recognise the views that have been expressed by local government since the First Minister's announcement on the council tax freeze. In fact, since then, the First Minister and the Deputy First Minister have met and had engagement with COSLA.

The Verity house agreement, which underpins our new deal with local government, is broad and wide ranging. The fiscal element is just one part of that agreement; council tax is just one part of the fiscal element; and the council tax freeze is just one part of our considerations around council tax. The committee will be aware of the work that has been undertaken through the joint working group on sources of local government funding and council tax reform.

We are committed to engaging constructively with local government colleagues in COSLA to

ensure that we are able to successfully implement a council tax freeze. I think that there is a shared understanding that that would be of benefit to households who are struggling right across Scotland.

The Convener: Thank you for that response.

You mentioned the Verity house agreement and the fact that the fiscal arrangement is only a part of it and that council tax is only a part of the fiscal arrangement. I would be interested in hearing your thoughts on the impact on trust. Are you confident that trust can be maintained between local government and national Government?

Tom Arthur: Yes, I am. As I have said, we recognise the views that have been expressed by local government. There is also a shared recognition of the opportunities that the partnership model that is embedded in the Verity house agreement affords local and national Government in taking forward shared priorities, including in the area of council tax reform, which I know is of keen interest to the committee, the Parliament more widely and, indeed, COSLA and individual local authorities.

We are very much committed to partnership working right across all aspects of the new deal with local government and specifically with regard to the council tax freeze. We are committed to ensuring that we can implement it in a way that meets the requirements set by the First Minister that it be fully funded and that it deliver a freeze that will be of benefit to people across Scotland.

11:15

The Convener: Thank you. I call Pam Gosal.

Pam Gosal: Good morning, minister. As has been mentioned, one of the primary principles of the Verity house agreement has been violated less than four months after the agreement was made. A key part of the agreement centres around there being a robust and regular process for early budget engagement that is embedded in the physical framework. However, the First Minister neglected to inform COSLA that council tax would be frozen for the coming year before he said so in his speech at the Scottish National Party conference.

Is the Verity house agreement even worth the paper that it is written on? If so, how is failing to consult on the decision to freeze council tax in keeping with the agreement's principles?

Tom Arthur: I very much recognise the views and appreciate the concerns that have been expressed by you, Ms Gosal, and by colleagues in local government. We are committed to ensuring that the council tax freeze is delivered in partnership with local government. Engagements

are already starting to take place. As I mentioned previously, the First Minister and the Deputy First Minister have both met COSLA specifically to discuss the matter.

As I touched on in an earlier answer, the Verity house agreement on a new deal with local government is significant and wide ranging. For example, on fiscal matters, early engagement in discussions around the budget is taking place.

There is a shared recognition that the agreement presents a tremendous opportunity to advance our shared agenda and our shared priorities with regard to ensuring that we have sustainable public services, that we tackle net zero and that there is a fair and just transition to a net zero economy.

I recognise the views and concerns that have been expressed. I am confident that there is a shared ambition to deliver on the vision and the priorities set out in the Verity house agreement, and we are certainly committed to taking it forward in that spirit.

Pam Gosal: Could I come back in, please, convener?

The Convener: Yes.

Pam Gosal: Minister, you have explained the fact that this has happened, but how do we ensure that it never happens again? Are you or the First Minister or the Scottish Government giving an assurance in that respect? The council tax freeze went ahead without any consultation with any local authorities; we have heard their views on that in committee, and I have heard their views on it outside, too. Local authority leaders and chief executives are not happy that the freeze went ahead without their decision.

I understand the thinking behind the freezing of council tax, but that relationship is what is important here. Are you saying that what happened is a one-off that will never happen again, and that the Government is looking to ensure that such a thing never happens again?

Tom Arthur: I think that we both recognise that particular circumstances can arise. However, we are jointly committed to the values that underpin the Verity house agreement, and we want to operate and work in a way—jointly and in partnership—that is consistent with the approach set out in it. That is how we will seek to continue to build on the progress that has already been made, in short order, since the agreement was reached.

The Convener: Thanks very much for those responses. We are obviously very concerned about the relationship with local authorities.

I call Willie Coffey.

Willie Coffey: Good morning again, minister.

Tom, you mentioned that the council tax freeze that was announced is just one part of the broader and wider agreement made at Verity house, and I want to pick out what your views are on continuing to develop discussions with COSLA in that respect. We know that COSLA as a body has not yet set out its view to us, which is why it is not here today. Can you describe the conversations that are going on with COSLA? You mentioned that the First Minister and the Deputy First Minister are in discussion with the organisation. From your perspective, how is that progressing in terms of the wider Verity house approach?

Tom Arthur: It is progressing constructively, as is engagement in the pre-budget space. The visitor levy legislation, which we were considering in the previous evidence session, is an excellent example of the partnership working that is being done with local government to develop a proposition in response to a long-term ask from local government. We also touched on the cruise ship levy, which we have committed to. Again, that is a proposition that has come from local government and to which we are responding positively.

I lead on and have direct responsibility for certain aspects of local government finance, and I am committed to working in partnership with local government colleagues to look at the opportunities that we have to further increase the fiscal empowerment of local government. That is reflected in the visitor levy and the cruise ship levy that we have committed to, as well as in the work that we have undertaken on reforming aspects of the council tax, such as the consultation on levying a premium on second homes.

We are making progress and I know that my ministerial colleagues in other portfolios covering a wide range of areas can speak to where they have seen significant progress as a result of that partnership working approach. We are certainly committed to recognising the huge opportunities afforded by working in partnership and with mutual respect with our local government colleagues.

Willie Coffey: The council tax freeze is bound to have an impact on the fiscal framework, but we know that we will not see that before the budget. Has the Government done any analysis, even at this early stage, of the potential impact of the freeze on that framework?

Tom Arthur: In meeting our commitment to ensuring that the freeze is fully funded, we will engage constructively with local government to determine what the quantum should be. That process will be on-going and decisions on the broader fiscal settlement will be taken as part of the budget process, with the budget statement being made to the Parliament next month.

The Convener: We move on to the theme of reasons for the council tax freeze, and I will bring in Stephanie Callaghan, who joins us online.

Stephanie Callaghan: Minister, how do you respond to those who say that the council tax freeze is regressive and that it does not benefit the poorest people in society? What do you see as being the benefits of the council tax freeze?

Tom Arthur: There is a shared recognition of the inherently regressive nature of the council tax overall. The council tax freeze will benefit everyone who pays council tax. We can understand that the council tax might well represent a higher proportion of their income of those who are on lower incomes.

In our role as representatives of our constituencies and regions, we all recognise that there is no part of society or of the people whom we have been elected to serve that has not been touched significantly by the impact of the cost of living crisis. That has certainly been reflected in conversations that I have had with people who are working in advice and money advice services, for example.

The council tax freeze can give people certainty at a time when we see significant fiscal pressure arising from the cost of living. I know that the policy will be welcomed by households across Scotland for providing that certainty going into the next financial year.

Stephanie Callaghan: I have to agree, minister. That certainty is important for people.

Can you speak to any lessons that have been learned from the previous council tax freeze? How effective was it in tackling inequality? What evidence do you have on that?

Tom Arthur: We know that the council tax in Scotland is significantly lower than it is in England, for example. The freeze ultimately means that money stays in people's pockets and they can use it to meet other costs that fall upon them. It is money that they have at their disposal to spend in their local communities in support of local businesses.

We recognise the views that have been expressed on the need to look at longer-term meaningful changes to the council tax system itself, but the freeze will, as I have said and as has been acknowledged, provide certainty in responding to the acute pressure that so many are facing in the cost of living crisis. As for determining the quantum of meeting the freeze, that work will be undertaken through negotiation and engagement with COSLA.

Stephanie Callaghan: Thank you.

The Convener: Thanks for those responses, minister. I call Miles Briggs, who has some questions on the powers to freeze council tax.

Miles Briggs: I want to ask about the Scottish Government's powers to introduce a full national freeze, given that it appears not to have the necessary powers to do so. Previous freezes have happened under a concordat with councils. Are you confident that you will be able to effect a council tax freeze across Scotland, and how else do you plan to incentivise councils to buy into this measure?

Tom Arthur: We are seeking to achieve a council tax freeze through partnership and engagement with local government, and the proposal is based on a shared recognition of the point that I touched on earlier about its meaningful impact on households across Scotland. The approach that we are taking is one of on-going negotiation and engagement. As I have said, it is through that process of partnership working with local authorities that we will seek to achieve and—I am confident—deliver the council tax freeze.

Miles Briggs: This year's council tax is being increased by about 5.5 per cent on average, while, last year, some councils were talking about a 10 per cent increase; indeed, Orkney put such an increase in place. It is quite clear that different councils are facing different financial pressures. For example, in my region, the City of Edinburgh Council receives the lowest funding per head of population in Scotland. How would the Government respond to a local authority that said, "No, thanks. We want to increase the council tax", as it would mean, in theory, that the national freeze would not be delivered?

Tom Arthur: As I have said, we recognise that local authorities have, in previous years, set different rates of council tax, and they will have made their own planning assumptions ahead of the next financial year. That is why the process of negotiation and engagement is very important, because, through that, we will arrive at a quantum that will be fairly representative of what is required to meet the council tax freeze. We are very much committed to working in that space closely and collaboratively to identify an appropriate quantum and, through that, to achieve the outcome of a freeze for all households across Scotland.

Miles Briggs: What will the maximum quantum look like? I think that 5 per cent would mean £148 million and 8 per cent £417 million, but what about 10 per cent—or even 15 per cent? Where is the Government on this? What money will be on the table? I do not think that it has been outlined by how much the Scottish Government will fund the policy.

Tom Arthur: I do not want to pre-empt the outcome of the negotiations. We are entering the process with a commitment to working and engaging closely and collaboratively to identify that figure. We will have those discussions with our local government colleagues to ensure that we meet the requirement for the freeze to be fully funded.

As you have touched on, a range of planning assumptions will have underpinned decisions by local authorities on where they might want to go with the council tax. We will allow for that opportunity for negotiation and engagement to take place, as that approach will ultimately inform how we arrive at a fair and representative quantum to deliver the council tax freeze.

Miles Briggs: Thanks.

Pam Gosal: According to the Fraser of Allander Institute's calculations, the freeze would collectively cost councils around £148 million next year, assuming an increase of 5 per cent as there was last year, and they would receive around £417 million if they struck a deal that gave them a rise of around 8 per cent. Surely the Scottish Government carried out some kind of analysis before making a commitment to fully fund the freeze. How much does it expect the freeze to cost? More crucially, where will the money come from?

Tom Arthur: As I said in response to Mr Briggs, in the spirit of partnership with local government we will follow a process of careful and considered engagement to determine what the quantum will be, and I do not want to pre-empt that. As for the resourcing of this particular quantum, such decisions will be taken as part of the budget process, and the Deputy First Minister will set out the budget to Parliament in a statement next month.

Pam Gosal: I have one more question. The First Minister gave a commitment to fully fund the freeze to ensure that councils can maintain their services, despite offering no real clue as to where the money will come from. It is highly likely that different councils would have planned to have different increases in council tax in order to maintain services in their areas. Will the funds that are allocated to local authorities take into account the variety of council tax hikes that each local authority will have planned?

11:30

Tom Arthur: As I have said, we will arrive at a position through the engagement and consideration that we have committed to having with COSLA. For me to seek to pre-empt the outcome of those discussions at committee would not be consistent with the commitment that we

have made and intend to fulfil. We will have those discussions and that engagement in a spirit of partnership with local government. Through that process, we will seek to arrive at a quantum that is commensurate with the commitment to fully fund the council tax freeze.

Pam Gosal: Have you started talks with local authorities on what that quantum will be, or are you going to start those talks?

Tom Arthur: We are embarking on that process. As I indicated earlier, the First Minister and the Deputy First Minister met and engaged with COSLA following the announcement on the council tax freeze.

The Convener: We will go to Mark Griffin, who joins us online.

Mark Griffin: When Opposition members such as myself ask questions or ask for additional budget, the first thing that ministers say is, "You need to identify where that funding is coming from." What discussions have the minister and the Cabinet Secretary for Finance had with other cabinet colleagues to identify where the funding for the potential council tax freeze will come from?

Tom Arthur: The position on the determination of funding will be set out as part of the overall budget process and it will be considered in that context. I note that we will carefully analyse what is announced next week in the autumn statement, which will be key to setting the envelopes within which we will operate, as well as the forecasts from the Office for Budget Responsibility and the Scottish Fiscal Commission, which will set out the context for the fiscal environment in which we operate. We have given that commitment and we have set out the process by which we will arrive at a fully funded council tax freeze. The broader determinations around funding allocations will take place through the budget process. The Deputy First Minister will set out that position to Parliament next month.

Mark Griffin: You have just said that the council tax freeze will be fully funded, which is a commitment that has come from the First Minister. What is your understanding of what a fully funded council tax freeze means?

Tom Arthur: As I have stated, I do not want to pre-empt the outcome of the discussions and negotiations that we have committed to having with local government. It is through that process that we will arrive at a quantum that will fully fund the council tax freeze. For me to seek to pre-empt that would be to disrespect that process.

Mark Griffin: I am not asking you to put a figure on it. I am asking what your definition of a fully funded freeze will be? What does it mean for it to be fully funded?

Tom Arthur: Again, that is why we have committed to engaging with COSLA. I think that if I were to give a definition without having engaged with COSLA or without having had those discussions, that would be seen as presumptuous. That is why we have committed to the process of engagement, which we will undertake. That will provide the means by which we will determine what the quantum should be.

Mark Griffin: You can understand that one person's description of fully funded may be different from another's. I find it difficult that the minister and First Minister can give a guarantee or a pledge that the council tax freeze will be fully funded without being able to say what a fully funded freeze would look like.

Tom Arthur: That is why we require negotiation.

Mark Griffin: The First Minister has also said that the commitment to fully fund the freeze means that councils would be able to maintain their services. Now, obviously, financial planning means that councils will have already been planning what level of council tax they might set, in advance of the announcement. If the funding falls short of that and councils have to either reduce services or make redundancies, what would be the Government's response?

Tom Arthur: To understand what planning assumptions local authorities have made is one reason why we have committed to the process of negotiation. Through that, we will arrive at a quantum which meets the commitment to fully fund the council tax freeze. I can appreciate the line of questioning that you are pursuing, Mr Griffin; it is perfectly fair and valid to seek to interrogate me, as a minister, on that. However, having given that commitment to a council tax freeze that is fully funded and delivered in partnership with COSLA, it is important that that process of negotiation and consideration is allowed to take place.

Mark Griffin: Okay, thank you.

The Convener: Thank you, minister, for bearing with us on the line of questioning. I will bring in Marie McNair with a question on the long-term plans for council tax.

Marie McNair: Minister, looking forward to the longer term, how is the Scottish Government progressing in its ambitions to reform council tax?

Tom Arthur: We have already made meaningful progress. I referred earlier to the consultation on council tax premiums for second homes, which is a commitment that we have jointly arrived at with COSLA. I have introduced the legislation on that, which I understand that the committee will be considering in due course. That

demonstrates the progress that we have made to date.

We continue to have engagement through the joint working group, which will explore ways in which we can meaningfully make improvements to the council tax system, including looking at options for longer-term reform. As part of that, we have committed to a process of a deliberative engagement with COSLA, recognising that it is a priority that we share and that there will be a desire to further advance that work as we go into the new year.

Marie McNair: Thanks for that. My other questions have been covered.

The Convener: It was good to get a little insight into what you are busy with in that regard, minister. That brings us to the end of our questions, so thank you again for being with us for two sessions this morning. It has been very helpful to get your views on the council tax freeze and the on-going discussions with COSLA around that issue.

Subordinate Legislation

Non-Domestic Rating Contributions (Scotland) Amendment Regulations 2023 (SSI 2023/288)

11:38

The Convener: Before we go into private session, we have one final short piece of public business, which is consideration of the Non-domestic Rating Contribution (Scotland) Amendment Regulations 2023. There is no requirement for the committee to make any recommendations on a negative instrument.

As members have no comments, does the committee agree that we do not wish to make any recommendations on the instrument?

Members *indicated agreement.*

The Convener: Thank you. We previously agreed to take the next items in private, so I close the public part of the meeting.

11:38

Meeting continued in private until 12:08.

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