



OFFICIAL REPORT  
AITHISG OIFIGEIL

DRAFT

# Finance and Public Administration Committee

**Tuesday 18 November 2025**

Session 6



The Scottish Parliament  
Pàrlamaid na h-Alba



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**Tuesday 18 November 2025**

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**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE**

**31<sup>st</sup> Meeting 2025, Session 6**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*Michael Marra (North East Scotland) (Lab)

**COMMITTEE MEMBERS**

Ross Greer (West Scotland) (Green)

\*Craig Hoy (South Scotland) (Con)

\*John Mason (Glasgow Shettleston) (Ind)

\*Liz Smith (Mid Scotland and Fife) (Con)

\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Hugh Angus (Scottish Government)

Lorraine King (Scottish Government)

Stephen Lea-Ross (Scottish Government)

James Lindsay (Revenue Scotland)

Elaine Lorimer (Revenue Scotland)

Ivan McKee (Minister for Public Finance)

John McVey (Revenue Scotland)

Aidan O'Carroll (Revenue Scotland)

Michael Paterson (Revenue Scotland)

Hannah Taylor (Scottish Government)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Finance and Public Administration Committee

Tuesday 18 November 2025

*[The Convener opened the meeting in private at 09:15]*

09:33

*Meeting continued in public.*

### Revenue Scotland

**The Convener (Kenneth Gibson):** Good morning and welcome to the 31st meeting in 2025 of the Finance and Public Administration Committee. The first public item on the agenda is our annual evidence session with Revenue Scotland on how it fulfils its functions.

We are joined by Elaine Lorimer, the chief executive of Revenue Scotland, and Aidan O'Carroll, the chair of Revenue Scotland's board. I welcome them to the meeting and invite Aidan O'Carroll to make a short opening statement.

**Aidan O'Carroll (Revenue Scotland):** I thank the committee for the opportunity to appear before its members this morning. We are pleased to be here once again.

Our annual report and accounts for the year to 31 March 2025 were laid before the Parliament in October, and we welcome the opportunity to discuss any aspects of those documents. We are happy to report continued positive progress at Revenue Scotland and there are several highlights that I will mention in advance.

This year marks a significant milestone: Revenue Scotland's 10th anniversary. Over the past decade, we have grown from a newly established body into a mature, resilient, and forward-looking organisation. To recognise that achievement, we were honoured to attend an event a few weeks ago at the Scottish Parliament—I thank the convener for agreeing to be our host—where we engaged with MSPs to reflect on our journey and share our vision for the future. Throughout the year, we have held a series of events with staff, stakeholders, and partners to set out our progress and reaffirm our commitment to delivering excellence in tax administration for the people of Scotland.

The organisation is committed to being as efficient and effective as we can. We continue to operate with a strong focus on automation, technology and maintaining a digital-first mindset.

That is a fundamental pillar for our organisation. During the past year, we have made additional investment in the skilled resources that will help to deliver on our digital data and technology strategy, ensuring that we drive additional value through a critical area for the benefit of all our stakeholders.

We have also actively contributed to the development of Scotland's tax strategy by engaging directly with Scottish Government colleagues through round-table and bilateral discussions on the future shape of devolved taxes in Scotland. Clearly, that has to be achieved against the backdrop of significant public sector reform. By ensuring that we invest correctly and wisely during the next few years, we will be able to contribute fully across a number of the areas set out in the recent public sector reform strategy that was published by the Scottish Government. We want to be an exemplar in our ability to collaborate, use shared service models and share our ideas and deliverables to help make us all more efficient.

As we look ahead to the design and delivery of existing and new devolved taxes, we are looking to ensure that our future operating model aligns to that public service reform agenda. Our corporate plan for 2024 to 2027 shows that we continue to make strong progress, and it remains our strategic focus in the coming years. Our annual business plan supports delivery across all four outcomes that are mentioned in that plan, and I will highlight another few areas where we are already seeing meaningful progress.

I have already mentioned our digital data and technology strategy, which is embedded in the corporate plan. To support that, we have continued to enhance our digital and data capabilities, ensuring that customer needs are at the forefront. Not only have we have invested in our core digital systems, we have improved our website and guidance materials and we have embraced new developments in information technology.

During the next few years, there will be additional tax responsibilities for new taxes. The first of those, the Scottish aggregates tax, will launch next April, and we have worked closely with the Scottish Government and industry stakeholders to ensure an effective implementation, with successful internal testing of our Scottish electronic tax system—SETS—platform, and further taxpayer engagement is planned. That we are on track is a great example of close collaboration, a technology-first approach and great project management to date.

There will be other devolved taxes that are either in train or being considered—for example, the Scottish building safety levy and the air departure tax. Again, we are working closely with

the Scottish Government on sharing our insights and expertise, and we will be ready to adapt our systems to be able to implement or support the implementation of such taxes efficiently and effectively.

We continue to make progress on creating a supportive, inclusive and high-performing workforce and workplace. Our EDI strategy and action plan are aligned with our corporate plan and people strategy. Through the futures project, we have successfully implemented a dynamic hybrid working model that enhances operational efficiency and supports staff wellbeing. That has allowed us to use physical office space much more efficiently and to recruit skilled personnel more widely than from the central belt of Scotland. We base that working model on external and internal evidence on what works best and we continue to refine our approach.

In 2024-25, our people survey results placed us among the top seven civil service organisations in the UK across all themes, achieving our goal of ranking within the top 25 per cent across the UK. Revenue Scotland benefits from an excellent board with a diverse range of skills and experience, and I publicly thank our board members for their invaluable contributions and their support for me as chair. We recently welcomed two new members, further enhancing the diversity and expertise at board level, and we have also taken on board three co-optees to our two committees, which has again given us greater expertise in areas that will be important in future.

I also record the board's heartfelt thanks to Elaine Lorimer, who has decided to step down after nearly a decade of distinguished service. Her vision, integrity and unwavering commitment have shaped the organisation from its earliest days. She leaves behind a legacy of excellence, resilience and innovation. On behalf of the board and all of us at Revenue Scotland, I extend our deepest appreciation and warmest wishes to Elaine as she embarks on her next chapter. Her leadership will continue to inspire us as we move forward.

Following a rigorous recruitment process in which we had a lot of applications, we are pleased to welcome Johanna Boyd as our new chief executive officer. Johanna brings a wealth of experience and a proven track record in executive leadership, and I am confident that, under her guidance, Revenue Scotland will continue to thrive and deliver for Scotland.

Finally, in the context of the continuous change that we are all going through, we should note that Revenue Scotland collected £962 million in revenues for the year to 31 March 2025, while keeping our costs below 1 per cent of revenues collected, which has been an important benchmark for us up to this point.

We look forward to continuing to improve on our overall performance and be seen as a real asset and an efficient public service, and we stand ready to take on more challenges going forward.

I again thank the committee for the opportunity to engage with you today. I very much look forward to our discussions.

**The Convener:** Thank you very much, Aidan, for that opening statement and for the reports. We have given them a thorough read-through, and I have to say that they are very positive, but I will ask you about one or two things, as will colleagues around the table.

Your revenue expenditure is £8,694,000, which is £406,000 less than your budget. That is significant given what the Scottish Government is trying to do in terms of its efficiency targets. Is it likely that that downward trend will continue?

**Elaine Lorimer (Revenue Scotland):** I will take that question, Aidan. Thank you for noticing, convener, that we made savings in our budget last year, but there were reasons for that. Part of it is to do with the introduction of the new Oracle system, which we report on in our accounts. It is the human resources system—it is a finance processing system—that the Scottish Government introduced last year and which we benefit from by way of a shared service. As part of the handover for Oracle, we had to freeze the filling of any vacancies to allow for secure data transfer and so on, which meant that we were not able to fill vacancies last year. We were holding vacancies for a number of months, which is why, when we come back next year to talk about our performance this year, you will see that our head count has gone up again.

What we also managed to do last year was to screw down on the little discretionary spend that we have. We were conscious that the Scottish Government was looking for a path to balance. There was an ask of all public bodies to see what savings could be made in that year, and Revenue Scotland contributed to that. We went round every area of discretionary spend that we had and made as many savings as we could. We have done the same again this year for the same reasons, but because our recruitment profile has been more active and we have managed to fill our vacancies faster than last year, we will not be able to offer up the same savings this year as we did last year.

Savings and operating efficiently as an organisation are absolutely at the heart of what we do. When we discuss what budget requirements we need from the Scottish Government and the Scottish ministers, we always look at how we can keep our costs down as much as we can. As you will see, that plays out in the costs that we are asking for for the introduction of the aggregates

tax and the building safety levy. The approach that we have taken is very similar.

**The Convener:** I know that you are always keen to try to keep the cost of Revenue Scotland below 1 per cent of revenues collected, and that will be a bit of a challenge with the bill that we will be debating and discussing soon, but I will not go into that at the moment.

It appears that staff absences are an issue. I notice that you went from an average of 8.6 working days lost in 2023-24 to 10.7 in 2024-25, which is a jump. That means that your staff, on average, are off for more than two weeks each year, which is quite a lot.

**Elaine Lorimer:** Yes—being a relatively small organisation, stats around things such as staff absences are overemphasised because of our size.

**The Convener:** If one person was off sick for six months, that would have an impact on the figures.

**Elaine Lorimer:** Yes, that would skew our stats. On the figure that you cited, the increase was due to two members of our staff being on long-term sick leave. I am pleased to say that, through our approach to supporting our staff when they were off, we enabled one of those staff members to return to work. Unfortunately, the other one had to leave.

We have a forensic approach to sickness absences. We get quarterly statistics, which we look at as an executive team. Obviously, we know what the situation is at team level, and we have a whole process of supporting our people when they are off to encourage them to come back fit, well and able to contribute to our performance.

09:45

**The Convener:** In his opening statement, Aidan O'Carroll talked a lot about digital issues and the need to invest more in digital services and so on. There is a whole list of different programmes that you are investing in. What work is being done to ensure interoperability with existing Scottish Government digital platforms?

**Elaine Lorimer:** I will start with the shared services that we rely on. All of our core operating systems in Revenue Scotland sit on the SCOTS connect network. That is a shared service, and it is core to our operations. The rest of our digital investment has been primarily in our electronic tax system.

On interoperability, we are really interested in ensuring that that system can be added to on a modular basis, for new taxes, for example. We must have barriers and place fences around that

because of the taxpayer information that resides in it. Rather than the system being interoperable, what is important to us is having access to data that we can share with other organisations. We do not need to create new data sets where that data set exists somewhere else.

Our system meets all the Scottish Government's security requirements. On future interoperability, what is important to us is whether we can get the data access that allows us to share the data that we are able to as a tax authority with other public bodies and whether we can have pipes of data coming back into our organisation so that we can maximise the benefit of the data that is available across the public service and do our job without the need to create new sets of data just for us.

I hope that that makes sense to you.

**The Convener:** Yes, it does. I will not go down a rabbit hole and ask a lot more questions on that topic, because of time constraints and other issues that I want to cover. However, that was informative.

On issues arising from last year's evidence session, we talked about user satisfaction being 76 per cent. On that rating, Elaine, you said:

"We think that it is good, but it is not good enough.—  
[*Official Report, Finance and Public Administration Committee*, 19 November 2024; c 41.]

What is the position on user satisfaction now?

**Elaine Lorimer:** That relates to the key performance indicator that we set, which is a recognised benchmark that different types of business in 13 sectors across the UK use.

I was asking about that yesterday, because I thought that you might ask me about it. The benchmark across the 13 sectors is up at 77 per cent this year. What we measure to look at compliance against that benchmark is feedback on the Scottish electronic tax system, which we get directly from agents, and feedback on our website. Each month, more than 200 elements of feedback on our electronic tax system come back via our website. I am advised that, so far, our performance against that benchmark is positive.

That benchmark looks only at so much. We also look at our performance against other things, which are statutory requirements, such as our performance against answering freedom of information requests timeously. You will see from our report that we have done that in every instance, bar one. We look at our other KPIs that we set ourselves, such as how quickly we answer phones and how quickly we respond to correspondence. You will see in our report that we have more than exceeded those KPIs.

That particular benchmark looks at responses to the services that we provide digitally. This year, we are already ahead of that.

**The Convener:** You have talked about 77 per cent being the benchmark, and it was at 76 per cent last year. Roughly, where do you think that you are now? You have said that you cannot be too specific.

**Elaine Lorimer:** I am afraid that I cannot give you that information at this point in the year.

**The Convener:** That is a politician's answer, is it not?

**Elaine Lorimer:** That is because we look at it and reflect on it at the end of the year. However, as of the mid-year point, we are there.

**Aidan O'Carroll:** It would be fair to say that the board is also looking at other ways of engagement to get more feedback and provide further assurance that we are heading in the right direction and that we are staying at a high level of efficiency and acceptance, as far as our key stakeholders are concerned. We are continuing to take on more feedback and more avenues and streams of feedback, which will help to establish more evidence to show that we are on the right track and that the feedback that we receive continues to improve.

**The Convener:** The directorate for internal audit and assurance has pointed out that the

"culture within Revenue Scotland continues to be open to audit and assurance".

However, it has said that two items were highlighted for attention as part of the 2023-24 audit, namely

"the risk that the related party disclosure may be incomplete or inaccurate"

and

"the scope for medium-term financial planning arrangements to be developed further to highlight and ensure financial sustainability."

It notes that

"Action to address these matters is underway and is expected to be completed"

during 2025-26. I wonder whether you can touch on that for a wee minute.

**Elaine Lorimer:** Audit Scotland's audit recommendation is around our medium-term financial planning. As we have said in the report, it is not that we do not do financial planning—we do, but Audit Scotland is asking us to go deeper to stress-test our plans against different scenarios. We are taking forward that work this year. Our budget bid to the Scottish Government is presented not just on a one-year basis but on a three to five-year basis, and we run a load of

scenarios around it. Audit Scotland is looking for us to set that out in a document that we can take to the board and that we can stress-test. That work is under way this year.

**The Convener:** On the assurances that are provided by the accountable officer, I understand that some issues were raised in respect of financial controls in the organisation. Some additional matters were identified internally to do with backlogs of work within the finance function.

**Elaine Lorimer:** In the past year, we had a situation with our finance team. We had a very small team of only four people and a number of staff left over the course of the year and took their knowledge and experience with them. That gave rise to some backlogs that we had identified, but Audit Scotland was very thorough and found more issues relating to backlogs and non-conformance with some of the processes that we had set out. We took immediate action to address that.

As the accountable officer, I set up a steering group to oversee delivery against the actions that we were asked to do. It was a fantastic example of Revenue Scotland standing up to respond. We were able to deal with all the backlogs, bring in internal audit to provide assurance that there were no untoward matters; the challenges were simply created by staff churn and turnover and processes not being followed as timeously as they should have been. We got all that back on track in time for the full audit, which stuck to the original timetable. I am pleased to say that, over the course of the summer, we have recruited an experienced new head of finance and a new finance team. They are continuing to adhere to the timescales that we set ourselves for those processes. As part of the internal audit work that I asked for, I asked the team to look forward at the further opportunities for us to enhance our finance team and the processes that it undertakes.

There are a lot of hand-offs between our finance team and our tax operations team. Some of the processes are terribly manual, so there is an opportunity for us to automate some of them in due course. The team gave us some recommendations on that, and a project is now going on within Revenue Scotland to act on those recommendations. I expect that, in due course, we will be able to automate some of those manual processes, such as reconciliations.

**Aidan O'Carroll:** That was an area where the board and, as you would expect, the audit and risk committee took keen interest. It was an example of where everything was stepped up to ensure that we take learning from it. It is a vulnerability for a small organisation if we have a small finance function. We are trying to embed a greater skill set so that we would be able to identify any issues earlier and deal with them.



**The Convener:** That is, to be more flexible in future. The Scottish Government's directorate for internal audit and assurance said that

"no fraud or losses of tax revenues were identified"

through the process, which, obviously, is important.

I have one last question about the statement of revenue and expenditure. I noticed that, in relation to penalties and interest, there was a significant increase in penalties from £2.178 million to £5.58 million, so they have more than doubled. If you add the interest to that, there is about a £3.7 million increase year on year. Can you explain what the reason for that was?

**Elaine Lorimer:** Indeed—this is the issue with issuing penalties. If you look back at previous years, you will see that there was a drop in the amount of penalties that we were issuing. That was a product of the Covid period when part of our response to support businesses was to pause issuing penalties when they were going through significant challenges in that period. Essentially, we have caught up with the penalties that were due to be issued over those earlier years.

The vast majority of those penalties are in relation to lease reviews. We have spoken to the committee before about the challenges that we, as a tax authority, face with the lease review policy whereby holders of commercial leases should be submitting a fresh tax return to Revenue Scotland every three years. We are finding that to be a challenging area of policy to get above 50 per cent compliance, so we are issuing a lot of lease review penalties—they are by far the majority of the penalties that we are issuing. Essentially, it was catching up on the backlog created over the Covid years and because of the focus being on those lease review penalties.

In our report, you will see that we talk about areas where we have introduced some automation. The issuing of penalty letters is one area where we have been able to automate some of that process, so we have also become more efficient and are issuing more penalties. That is the cause of that, I am afraid.

**The Convener:** Thank you very much. I have hogged enough of your time and colleagues are keen to come in.

**Michelle Thomson (Falkirk East) (SNP):** Thank you for joining us—and thank you, Elaine, for all of your hard work in Revenue Scotland. You have created a culture that will influence and shape the organisation, which is very important.

Last year, I asked about the representation of, and the split between, men and women in the organisation. I can see that you have made determined attempts to improve that; I was

heartened to hear about your new CEO and the two new board members. There is still a way to go in relation to the board and the audit and risk committee, which have 37 per cent and 20 per cent female representation. I can see that you have co-opted board members, too, because those are fixed-term positions. Aidan, will you state what your target is and give a sense of where you are in the journey towards that?

**Aidan O'Carroll:** As you know, getting the best diversity at board level that we possibly can is an issue that is close to my heart. This year, we have made good progress in terms of the diversity and skill sets not only of board appointments but of the mix of co-optees. Inevitably, it will still take time, based on when future retirements will be, but I see an opportunity again next year when we start the process to replace board members and, ultimately, to replace me.

We will use the same attraction strategy that we adopted this year, which was to reach out as far as possible to as many groups as possible, and to deliver the message that we are serious about improving the diversity—not just the gender diversity but the overall diversity—of the board. This year, that led to different types of applicants for the non-executive positions and the chief executive position, and it was quite heartening that we had a much broader mix of applications.

10:00

**Michelle Thomson:** Is cognitive diversity part of your mix?

**Aidan O'Carroll:** Yes.

**Michelle Thomson:** That is good, and I will watch the situation with interest.

On the gender pay gap, women on average are earning 5.9 per cent less than men, but that figure has increased from 1.6 per cent since the previous reporting period. Again, I appreciate that the scale of the organisation can mean that that can quite quickly become skewed, particularly with senior appointments, but it would be useful to hear your reflections on why that is the case, because the figures are going in the wrong direction.

**Elaine Lorimer:** I will make a couple of points about that. That is measured at a particular point, so it just depends on how your organisation is sitting at that time, which is 31 March. In a small organisation, the figure can get skewed. However, when you look at the representation across the grades, we are doing well in making sure, as far as we can, that there is gender diversity and equality. Everybody gets paid the same rate, irrespective of gender, so it is a question of where the women sit in the grades in the organisation. The number of women who have been promoted

from the lower grades this past year has been pleasing to see. Similar to Aidan O'Carroll's point, it is just a matter of time.

There are four of us at the senior leadership team grade, and the gender balance is 50:50. At the grade below that, the balance is almost 50:50. As you go down through the organisation, you see that we are making progress. The percentage that was mentioned is simply a reflection of the position at that point in the year.

**Michelle Thomson:** What assessment have you made from a risk perspective, particularly from a corporate risk perspective, of the Supreme Court judgment earlier this year? Many organisations have left that with their HR departments, but it must be assessed as a corporate risk, given the potential for litigation. What has your approach been?

**Elaine Lorimer:** I will take that, initially. That issue has been discussed at the board's staffing and equalities committee. We have not elevated it to a position on our corporate risk register; instead, we decided that we must walk very carefully through the impact of the judgment on our policies, but, of course, many of our policies are policies of the Scottish Government.

**Michelle Thomson:** That is a risk in itself, and given the slowness to respond, it is a critical risk. Somebody could litigate against you and saying that you are waiting on the Scottish Government is not a defence under the law.

**Elaine Lorimer:** Yes, and we are aware of that. Our staffing and equalities committee has made that very clear to us, because the chair of the committee is also a member of Employment Tribunals (Scotland).

We are doing what we can. I will talk about practical things and then come on to cultural issues. We sit in a Scottish Government building in Victoria Quay, where it is up to the Scottish Government to make sure that the facilities there are commensurate with the judgment. There are gender-neutral toilets, and there are female and male toilets.

To come back to our organisation, it is really important that we treat everyone in our organisation respectfully. We have a fantastic reputation for being an inclusive employer, and everybody is welcome. That is the message that we have been sending out from Revenue Scotland. We are engaging with the Scottish Government to ensure that our specific policies on where we are located and what facilities we have for people are commensurate with the impact of the judgment.

**Aidan O'Carroll:** We also take regular feedback from focus groups in the organisation to ensure

that our finger is firmly on its pulse and we know how staff feel about the policies and how we are doing. To re-emphasise the point, the staff and equalities committee is not just focused on looking at our workforce planning but on the practical implementation of those policies. We are not only aware of how staff feel; we are keeping our finger on the pulse, so that we can be rapidly reactive if there is an issue.

**Elaine Lorimer:** There is a Scottish Government delivery bodies group, which consists primarily of organisations that are separate employers but are subject to the Government's main terms and conditions, so all the staff are civil servants. As a collective, we have been staying connected, because we are conscious that we need to stand together in our approach. It would not be right for one organisation to head off in a particular direction, because that could open up concerns about litigation for the rest of us. We are trying to move forward carefully and be mindful of the guidance that has come out from the Equality and Human Rights Commission, but we must also ensure that we are in lockstep with what the Scottish Government is publishing by way of policy change.

**Michelle Thomson:** Taking a risk-based approach will be very wise for all the areas that you have outlined.

I have a final wee question, which I also asked last year. Going back to the convener's questions about digitisation, I asked you last year about your thinking on artificial intelligence. We are a year down the line. I have heard that some public sector organisations have said that their staff should not use AI at all, which seems somewhat luddite, but I want to get a sense of where you are at. A lot of people are routinely using Copilot, Gemini, ChatGPT or whatever, but where is your thinking on that this year?

**Elaine Lorimer:** Essentially, there are two elements on AI that I can talk about, one of which I have already mentioned, which is the use of AI for the automation of our processes. We have made progress in that area this year with some of our batch correspondence. We can now generate that automatically as a result of investment that we have made in our system, and that will free up staff time to do other work.

We are also one of the organisations within the Scottish Government's remit that has taken on Copilot. We are mindful of the risks that are associated with that, because the key thing for us is understanding where information goes from a security perspective. A small number of staff in Revenue Scotland have the full Copilot licence, and they are trialling that in safe areas. That is being overseen. We have an information governance group that supports our senior

information responsible owner with regard to the corporate decisions that we will need to make about using such software more regularly across our organisation.

The feedback so far is that Copilot is pretty good for the things that we are using it for, such as producing minutes and notes of meetings, but we will need to walk through very carefully whether we could introduce Copilot more broadly into some of our interactions with taxpayers and things like that.

We also had a presentation at the board. Are you going to speak to that, Aidan?

**Aidan O'Carroll:** Yes. Again, keeping abreast of the developments in the wider Scottish Government, we have already engaged on AI and had updates about where it could be deployed. As such, we have baked into our future digital data and technology strategy the increasing use and usability of AI-driven automation.

A caveat that I always add is that what we get from using AI will very much depend on the quality of data that we can extract from the systems. It is just as important that we improve the data sets that we are getting, because that will lead to increased opportunity for the data to be interrogated intelligently by AI. We see that as a big plus in the future, because this is not about just our data sets—we will be able to interact with other departments' data sets, which will deliver the bigger prize for everybody.

**John Mason (Glasgow Shettleston) (Ind):** I noticed that your staff costs have gone up somewhat. The figures show an increase in staff from 94 to 99, including an increase in permanent contracted staff from 88 to 96. Wages have gone up from £4.1 million to £4.6 million, and staff costs have gone up from £5.8 million to £6.5 million. Will you comment on that?

**Elaine Lorimer:** Yes, that is right. Our head count has increased as per our workforce plan for the year. We needed to bring some new staff into our organisation to support the introduction of Scottish aggregates tax and the preparatory work for the building safety levy. This year, we have also invested in our digital and data team, as Aidan O'Carroll mentioned. In order to accommodate those changes to our staffing complement, we have not filled other vacancies that have arisen elsewhere in the organisation. We are taking a strategic approach to how we invest in the capability that we, as an organisation, must have.

Obviously, that has had an impact on our costs. However, when those costs are broken down, we see that a significant element of the higher costs is related to pay rises, which we have to adhere to

as we are subject to the Scottish Government's main terms and conditions.

**John Mason:** The Government's target for pay is an increase of 9 per cent over three years.

**Elaine Lorimer:** Yes, but that does not mean 9 per cent each year. The uplift was what had been negotiated by the Scottish Government, and that was front loaded. Our cost rises resulted from a mixture of our head count going up slightly and the impact of salaries.

On the use of agency staff, that was to assist us. The convener mentioned that we have had long-term absences. We had some real pinchpoints in the two teams that were impacted by that, so we brought in short-term agency staff to support us, who have now left.

**John Mason:** Your annual report and accounts talks about the pension benefits of the senior leadership team. Those appear to have gone up quite a lot.

**Elaine Lorimer:** I am afraid that that is just a product of the scheme. We have no influence on that at all.

**John Mason:** I thought that might be the case.

As the convener mentioned, you have a target of 1 per cent of total revenues going to administration. Your admin costs went up from 0.87 per cent of revenues the previous year to 0.93 in 2024-25. I take your point that you are preparing for new taxes, and, as the convener also said, we will discuss the building safety levy in the next part of this meeting. However, even though the levy will be quite small, is it liable to push you over the 1 per cent?

**Elaine Lorimer:** Two new taxes are coming our way—the aggregates tax and the Scottish building safety levy. We are very mindful of the revenues that are being forecast for those taxes and the impact that that will have on the 1 per cent figure. Putting set-up costs to one side and looking just at our running costs for the administration of those taxes each year, we can see that the 1 per cent target will be put under pressure, because the revenues will not be as high as we would like.

Of course, those are forecasts. It will depend very much on what happens when we take on the taxes—what we see when we start to administer them and what we see in terms of compliance or non-compliance.

I can assure the committee, though, that we have that 1 per cent firmly in our sights as we work hard to figure out what the additional costs will be for our organisation to take on those taxes.

10:15

Aggregates is a good example to cite. Our previous model might have been to set up an individual aggregates tax team within our organisation and to staff it up the way in which we staff up our other taxes, but due to our concern about running costs, and taking account of the decline in landfill tax revenues, we have instead put together a joint team called the environmental taxes team. The aggregates tax will be administered and managed by a joint team, which means that we do not have to increase the head count as much as we might have done in the past.

The building safety levy is a brand-new tax, so there is not a direct equivalent that we get from anywhere else.

**John Mason:** I am reluctant to get into that topic now, as the convener might want to keep it for later.

**Elaine Lorimer:** Okay. The story with building safety levy is slightly different.

**John Mason:** Fair enough. Presumably, with landfill tax, although the revenue is falling, the admin costs for it are much the same.

**Aidan O'Carroll:** Indeed. The admin costs might go up marginally as the behaviour of that industry moves towards the decline of landfill tax. We might require to do additional compliance activity around that as the revenues decline. It is not always a linear model that we will be looking at.

**Elaine Lorimer:** That is right. The nature of the work in that team is changing, as Aidan said.

**John Mason:** Going back to your staff, I note your comments about the hybrid operating model. Will you tell us about that? My reading of it is that staff have flexibility, but they must be in for key business activities, including new-start induction and board and committee meetings. Can the staff work entirely at home unless they have a special meeting to go to, or is that not the case?

**Elaine Lorimer:** It is open to the staff to work at home, provided that there is not a business need for them to be in the office. The range of activities that we class as anchor activities for the office is wider than what you have just described. For example, team meetings take place in the office, and if staff are working on a project and it would be of benefit to the outcome of that project to come into the office, they do so. I was in the office yesterday, and there was a group of staff in because there is a project that they want to get their heads around and take action on, and they recognised that they needed to come into the office for that.

We have a bare minimum, if you like. Outside of that, if staff are as productive working from home as they are in the office, they are able to work from home.

**John Mason:** Some organisations have moved away a bit from home working and have insisted that people are in the office two or three days a week. You do not have that kind of rule.

**Elaine Lorimer:** We have not moved to a direct model of insisting that people are in the office on set days in the week, because that would not necessarily produce for us the performance that we have enjoyed over recent years. Apart from anything else, if I insisted that staff were in the office on set days in the week, our office would not be big enough, because, as part of our hybrid operating model, we were able to reduce our footprint in Victoria Quay.

We deliberately chose not to go down that route, because all the evidence told us to look not just at anchor days in the office but at activities in the office. That allows our staff to come into the office for the things that require to be done in the office for reasons of optimum performance, and then they have the flexibility to work from home.

We also have staff who would rather be in the office more, so they can be, and are, in the office more.

**Aidan O'Carroll:** I re-emphasise that we keep a close eye on this and look at the behavioural patterns. We are very much focused on the outputs, as opposed to the inputs, when it comes to productivity, and we see that productivity has improved over the period since Covid.

As an attraction strategy, there is definitely a connection between the high staff satisfaction scores and the model that we are operating. As long as productivity remains high, we are content to keep taking evidence on that model and to share that evidence more widely. It is a model that the board certainly believes in at the moment.

**John Mason:** So, to an extent, the issue is still under review. My personal experience, which is reasonably limited, is that I completely trust some staff at home, and they probably work better there than in the office; frankly, however, some staff do not.

**Elaine Lorimer:** Most of our work is done electronically now, so we absolutely know what our staff are doing and what their output is—we can see it. With respect, I would push back on your assertion.

**John Mason:** Okay—that is fine.

**Elaine Lorimer:** There will always be a small number of people at the margins who are not performing in the way that we would like them to

perform, and we would have that anyway, whether or not they were in the office. When we have that situation, we bring such staff back into the office under our hybrid model. However, I would not want to change our model because of a small number of people at the margins. The model has fantastic benefits for recruitment. The people who we are bringing into our organisation talk about our hybrid model as one of the attractions for them. As we said in our report, we can now recruit people from all over Scotland, although they recognise that they have to come into Victoria Quay for the anchor activities in the office. The model has broadened our reach as an employer, which can only be a good thing.

**John Mason:** Somebody might ask you the same question next year, but it will not be me.

My final point is on cybersecurity. Your report lists 13 risks, and number 11 is cybersecurity. I do not know whether those are in order, but that seems to be quite low down.

**Aidan O'Carroll:** No, they are not in order.

**John Mason:** That is perhaps reassuring. Are you reasonably relaxed about that risk?

**Elaine Lorimer:** No.

**Aidan O'Carroll:** The board is never relaxed on cybersecurity. You might know that one of the co-optees on the audit and risk committee is a cybersecurity specialist—that is what he does for a living. It is an issue that keeps us all awake at night. We do not just rely on what is happening more broadly at Scottish Government level; we need assurance on our connection with external stakeholders, which is a key risk, particularly in working with NEC on SETS. We need to always get the key assurance that those stakeholders are staying completely up to date in relation to their firewalls and the way in which they would handle a potential penetration attack.

The issue remains very high up on the list, particularly at the audit and risk committee level, as a key risk that we must monitor regularly. Indeed, we question whether there are things that we need to do that go further than cyber essentials plus, which is the benchmark at Scottish Government level. We keep that constantly under review.

**Elaine Lorimer:** Just last week, we had a business continuity exercise. We do that quite regularly now, with the support of the Scottish cyber co-ordination centre, which comes in and runs thorough the exercises. Last week's exercise was specifically about our tax system and how we would respond if there was an issue.

Cybersecurity will always be high up in our approach to risk as an organisation. The only way to prepare for an issue is to practise, because one

of the things that the experts have told us is that it is not a question of if but of when, so we have to be as ready as we can be. As Aidan O'Carroll said, the board takes the issue incredibly seriously and, as an executive, we do, too.

**Aidan O'Carroll:** Training is essential as well. Recently, we have mandated that all board members must go through an element of cybersecurity training. We are using the cyber co-ordination centre and the governance training that it provides, which is helpful. All of us will have been through that by the end of the year.

**John Mason:** Thank you.

**The Convener:** I could only work from home if there was no chocolate or there were no crisps in the house and there was a lock on the fridge to which I did not have the key.

**Craig Hoy (South Scotland) (Con):** Good morning. I have a brief question on organisational culture before I move to something more substantive. You have implemented a 35-hour working week. How is that panning out? Are you finding that some staff cannot do their job within that 35-hour working week? For example, Ms Lorimer, are you working 35 hours and capping it, or are you working more?

**Elaine Lorimer:** The senior civil service is not affected by the 35-hour working week and I can assure you that I am working longer hours than that.

We are on Scottish Government main terms and conditions, so our organisation had to implement the shorter working week. As you would expect from Revenue Scotland, we put a project together to work with our staff to see how we could accommodate that. We had reduced our working hours by one hour the previous year, so it was just another hour that had to be found. We have taken that forward by being really mindful about meetings. We are an organisation that loves meetings, so we have tried to reduce the length of our meetings and to question whether we need a meeting. It is fair to say that, across the organisation, most staff are managing to work within that 35-hour working week. We monitor staff working hours, and where we find that staff are regularly exceeding the 35 hours, we pick that up at their monthly conversation and talk to them about how to improve their ability to adhere to the 35 hours. In general, across the organisation, we are managing to work within the 35-hour working week, and we monitor whether it is not working for particular individuals.

**Craig Hoy:** Just in practical terms, how do you monitor that? Do you monitor when staff log in to and out of their computer, or do you do something more sophisticated?

**Elaine Lorimer:** Our staff are on a flexible working scheme. As part of the new Oracle system, they log in and log out, and we get a monthly report on balances. We are able to take immediate action if we notice that there is a problem.

**Craig Hoy:** You report a 99 per cent tax collection rate in 2024-25. For a layman, what does a 99 per cent collection rate mean?

**Elaine Lorimer:** It means that 99 per cent of the tax that was declared by taxpayers was received by us.

**Craig Hoy:** The principal tax that you collect at the moment is land and buildings transaction tax.

**Elaine Lorimer:** Yes.

**Craig Hoy:** Are you concerned that, because of the operation of LBTT, the amount that is declared could be less than the amount that is due?

**Elaine Lorimer:** That takes us to our role in compliance. We look at compliance from a risk basis. Through experience, as an organisation, we are aware of particular types of transaction or interaction, for example between non-residential and residential tax, and the opportunities for taxpayers that there might be. We focus on areas in LBTT where we see the greatest risk, and that is where we target our compliance. If you look at our compliance yield, you will see that, in the past year, it has been in the order of £3 million, most of which has been through LBTT.

**Craig Hoy:** That £3 million sounds significant, but if you missed a few additional dwelling supplement transactions, for example, you could get quite close to that figure quite quickly.

**Elaine Lorimer:** The additional dwelling supplement is an area where we have increased our activity. We talked earlier about the importance of being able to access data. For the additional dwelling supplement, we are really interested in, in due course, being able to access data from local authorities on council tax and the second home premium that people now pay. I am sure that, if we look at that alongside our ADS data, that will throw up compliance issues for us. ADS is an area where we are increasing our compliance activity.

**Craig Hoy:** Some estate agents say that they are now advising customers early on in the process, even before viewing, about the burden that LBTT and potentially ADS will put on the transaction. However, when you speak to some conveyancing solicitors, there is still a sense that they are only as good as the information that the client gives them.

You are saying that you think that your compliance costs and your recoveries are quite

good, where you have anticipated something. However, if, for example, someone is buying what appears to be their first property in the UK and happens to own a bolthole in Slovenia, what capacity do you have to find out whether ADS should apply to that? I assume that you will not trawl the land registry in Slovenia.

10:30

**Elaine Lorimer:** That is right. We need to take a risk-based approach to the transactions that we look at. The team is very expert at being able to sample transactions as they come through and to look for risk areas.

The issue relating to conveyancing solicitors that you identified is really important for us. We have always worked closely with the Law Society of Scotland, but we are now talking to it about specific areas, including what information solicitors get from clients. We want to know whether there is an assurance point further up the chain that solicitors could be involved in that would ensure that they get the evidence that they should get in order to ensure that their client is paying the right amount of tax. Ultimately, of course, that is a matter for the client, because it is a self-assessed tax.

Our relationship with the Law Society is really important here, and we are taking that forward.

**Aidan O'Carroll:** I know from talking to our head of tax this morning that that is a key area for continued investigation. We want to find out whether there are other data sets that we can access that could give indications of misbehaviour or of what would be, in effect, misrepresentation of what the property is.

**Craig Hoy:** One of the critical elements, particularly for ADS, is the concept of being in an economic unit, which means, for example, that cohabiting couples will incur ADS even though one partner will not be on the title deeds of their partner's property. That will be very complex for you to unpick, will it not? With ADS, there is an element whereby, if someone chooses to pay it, they are choosing to pay it.

**Elaine Lorimer:** Yes, there are particular scenarios involving the constructs of economic units and parties to transactions that are more complex. We in Revenue Scotland think about ADS as a tax. We talk about LBTT, but there is LBTT and ADS.

**Craig Hoy:** It is a hefty tax.

**Elaine Lorimer:** Yes, it is a significant tax, so, when it comes to our compliance work, a lot of our emphasis is on ADS. It is not solely on ADS, but a lot of it is on ADS. Increasingly, we are having to look at quite complex transactions.

It is clear from looking at the cases that, ultimately, have gone to tribunal that some of the more complex ones have been about ADS. That means that our staff, as well as needing to have solid tax experience, must be able to understand commercial constructs and tax-efficient ways in which people might construct their affairs, so that they can properly analyse and inquire into such transactions.

**Craig Hoy:** Are you aware that some couples are considering trial separations for the period when the transaction goes through, in order to avoid the tax?

**Elaine Lorimer:** I think that my team—I say this in the nicest possible way—have the sharpest and most cynical minds, so they are well aware of the ways in which people attempt to circumvent the rules around ADS.

**Craig Hoy:** You are aware that, as the percentage is increased, people will be increasingly inventive when it comes to ways to avoid what is quite a hefty bill.

**Elaine Lorimer:** That is an obvious conclusion to draw.

**Craig Hoy:** Thank you.

**Liz Smith (Mid Scotland and Fife) (Con):** I have a question on the theme of data. You rightly say that data is extremely important when it comes to the work that you do.

We have had many discussions with the Scottish Fiscal Commission and think tanks about the relevant data from the labour force survey, which has been flagged up to us as not being particularly accurate. Labour market trends are crucial in relation to tax revenue. Does that problem affect you in any particular way? Are you aware of concerns about the lack of accurate data on labour market trends?

**Elaine Lorimer:** For the taxes that we have, we are not so much concerned about labour market trends, but we are really interested in other data. For example, in relation to aggregates tax, it is difficult for the Fiscal Commission to accurately forecast the revenues because the Scottish data that we might need does not appear to exist. The first couple of years of the operation of that tax will tell us what the revenues could be. Data becomes really important for us in being able to work with the Fiscal Commission on revenues forecasting.

The other point for us around data is, as we have mentioned, whether we can access data that exists in other public bodies that will assist us in our compliance work.

However, the labour market trends data is not necessarily something that concerns us.

**Liz Smith:** Is there good co-operation with other public bodies that are trying to access that data?

**Elaine Lorimer:** Because we are a tax authority, we have very rigorous rules around what we can share. In fact, it is an offence if we share protected taxpayer information without consent. We have been able to use the Digital Economy Act 2017. We are named as a body that is covered by the 2017 act, which allows us to share data with local authorities, albeit that that data is limited to areas where there could be fraud.

We would really like to have a wider ability to either share data, recognising that there would need to be safeguards around that, or seek data from other public bodies or entities that have data that would be useful to us. At the moment, we do not have those powers, but we are really keen to see them brought forward.

**Aidan O'Carroll:** We are engaging with the three key stakeholders from which we would like to be able to access more data on land-based transactions, which are His Majesty's Revenue and Customs, Registers of Scotland and local government. We are keeping the debate on that live at this stage, because if we can get access to that data in the future, subject to the rules of confidentiality, it will make informed and intelligent investigation, as well as challenge and forecasting, much more effective.

**Liz Smith:** Thank you.

**The Convener:** That concludes questions in our annual governance evidence session with Revenue Scotland. Would the witnesses like to make any further points before we conclude this part of our deliberations?

**Elaine Lorimer:** The only thing that I would like to say, convener, is thank you very much for inviting us and for your on-going interest in our organisation. It has been an absolute privilege to lead Revenue Scotland for nine and a half years.

I am always mindful that it is Parliament to which we are accountable. Having these sessions enables us to come and share with you what we have been doing, and they also allow you to probe away to satisfy yourselves that we are the efficient organisation that we think we are. Thank you very much for your on-going interest.

**The Convener:** Thank you. I will not say goodbye just yet, because you are about to take part in the next session. These are really important sessions and they are very interesting for the committee in seeing how Revenue Scotland is progressing.

10:38

*Meeting suspended.*

10:42

*On resuming—*

## **Building Safety Levy (Scotland) Bill: Stage 1**

**The Convener:** The next item on our agenda is to take evidence from two panels as part of our scrutiny of the Building Safety Levy (Scotland) Bill. For the first panel, we are joined by the Revenue Scotland officials Elaine Lorimer, chief executive; Michael Paterson, head of tax; John McVey, new devolved taxes programme manager; and James Lindsay, tax design lead. I welcome you all to the meeting. We have your written submission, so we will move straight to questions.

I note that the building safety levy will be Scotland's fourth devolved tax. Something that is often quoted in relation to tax, and which appears in paragraph 2.1 of your submission, is

"the four 'Adam Smith principles' of taxation (certainty, efficiency, convenience, and taxes that are proportionate to the ability to pay)".

Do you believe that the building safety levy meets those criteria?

**Elaine Lorimer:** Thank you for inviting us here today. We interpret the Adam Smith principles from the perspective of the operation of the tax rather than the policy that is behind it in the first instance. At this point in the legislative timetable for the Scottish building safety levy—or SBSL, as we call it—there are areas where additional work is still required to bring more clarity to the legislation. We expect that work to happen as the bill and secondary legislation proceed. What really matters to Revenue Scotland is that we have a tax that can be administered well and efficiently. That means a tax that is clear, not just for us as the tax authority but for taxpayers. We will be working with Scottish Government policy officials over the coming months to try to achieve that.

**The Convener:** Where do you feel that you are in that process?

**Elaine Lorimer:** I will hand over to Mike Paterson on that. We are working closely with officials. We understand what is in the bill at stage 1, and we know that, during stage 2, there will likely be further clarification.

**Michael Paterson (Revenue Scotland):** We are in a very good position vis-à-vis our Scottish Government colleagues. James Lindsay, who is sitting to my right, has the title of tax design lead, so he is leading for Revenue Scotland in making sure that the tax design works, is efficient and will be well understood by taxpayers, and is capable of being implemented in a digitally efficient way.

We have worked closely with officials since the beginning of the process, and that engagement continues. We have been asked to take on responsibility for some elements of engagement with the industry, users and taxpayers, so that we can make recommendations on particular aspects to the Scottish Government to ensure that the system works efficiently.

I do not know whether James Lindsay wants to add anything relating to the areas in which we are working.

10:45

**The Convener:** I will add something and then Mr Lindsay can comment. You talked about ensuring that the tax works. What do you mean by that? In the previous evidence session, John Mason touched on the point that Revenue Scotland is very proud of the fact that less than 1 per cent of tax revenue is used for administration, but I do not think that anybody thinks that that will be the case for the building safety levy. We are talking about administration costs of £300,000 for a tax take of, we hope, about £30 million. What do you mean when you talk about a tax working? Money can be collected, but where do efficiency, effectiveness and acceptability fit in, Mr Lindsay?

**Elaine Lorimer:** I can take that question initially. From our perspective, when Mike Paterson refers to a tax working, we are thinking about whether we can administer it, whether we can do so in a digitally efficient way and whether we are able to produce guidance on our website that provides as much clarity as possible for taxpayers, so that they understand their obligations. That is what we mean when we talk about a tax working.

We have pared our costs right back for the building safety levy as the tax design has become more apparent to us following the financial memorandum. As you said, we are now talking about running costs of about £300,000 a year, which would take us almost within 1 per cent of a £30 million tax take.

**The Convener:** That is a really interesting and significant comment, because we understood that the figure would be significantly higher than that—by a factor of 10 or more. You can pare back your costs, but a balance needs to be struck between paring back in relation to the efficiency of expenditure on collection and ensuring that you collect the money. Do you feel that you are at the optimum point, as the bill stands?

**Elaine Lorimer:** As the bill stands, yes. That is what—

**The Convener:** Poor James has not got a word in yet, but never mind.

**Elaine Lorimer:** We will bring him in.



We will require a digitally efficient way of collecting the tax revenues. The financial memorandum sets out the initial set-up cost, which is based on getting our digital system in place to be able to collect the tax. The yearly running costs that I have talked about do not include that initial set-up cost.

I can bring in James Lindsay on how we are working with the industry to understand what it requires of us, so that we can ensure that the operation of the tax is as easy for it as possible.

**James Lindsay (Revenue Scotland):** From a tax design standpoint, which is my role, the most important thing has been my and Revenue Scotland's involvement with the bill team from the onset of the development of the tax. In fact, we were involved prior to the onset through the design of the order in council, which gave the Scottish ministers the power to introduce the tax. That has helped us to understand how the tax will work.

We have also been involved in the Scottish Government's engagement with external stakeholders from the early stages. We have been involved in expert advisory groups and, as Mike Paterson mentioned, we have taken the lead in some specific and technical areas in which we can add value for the bill team.

Being part of the process from the beginning has helped us to have more clarity on how the tax will work. Some issues still need to be worked out, and we are working closely with the bill team to maximise our understanding and get information from external stakeholders, which will inform that process.

**Michael Paterson:** I can give an example of how the tax might not work if it is not designed properly. A key consideration for taxpayers is the cash flow position in relation to when they pay the tax—that is, when the tax is triggered and when it is payable. That has been pushed to as late in the process as possible. Consideration about when the tax becomes payable can ensure that there is sufficient time for the taxpayer to have gathered in the moneys that they would then pay out as tax. That is an example of how tax design can influence the tax and make it work better for us as a revenue authority and, more importantly, for taxpayers.

**The Convener:** Of course, the developers—who are less than enthusiastic about the levy—still do not think that that is late enough, as you will probably be aware.

The collection costs of the levy will be paid back, but has there been any downward pressure on the initial set-up costs, or are those still at the £3.7 million figure that we were led to believe they would be?

**John McVey (Revenue Scotland):** Yes, there has been downward pressure. The initial costs that we provided for the bill's financial memorandum were risk based. There was not a lot of information, and a lot of requirements were not available to us. We have considered the programme costs, the running costs in relation to staff, and the IT costs. With regard to the programme, we have reduced our headcount. We had planned to bring three members of staff into the team, but we are instead now bringing in one. We are also considering staffing costs for the on-going running of the levy—again, that will reduce.

We are confident that the IT costs will reduce as well. That is as a result of the unknowns becoming known. At the outset, we were unable to give our IT provider much detail about how the tax will work. However, as we work closely with the bill team and as legislation and policy develop, we can start to refine the requirements with a view to driving down the costs. We are confident that the direction of travel indicates that the costs will reduce.

**The Convener:** In paragraph 1.4 of your submission, you said:

“Revenue Scotland has and continues to give advice, support, and assistance to the Scottish Government in relation to the practical impact on the administration of the tax regime contemplated by this Bill.”

Do you have concerns about some of the practicalities of the introduction of the bill, as was suggested in the submission?

**Elaine Lorimer:** We do not have concerns about the practicalities. The practical issue for us is to make sure that the bill and secondary legislation go through in time to enable us to administer the tax within the timeframe that ministers are asking for. There is detail in the bill but, as ever with tax legislation, there will be more practical detail in the secondary legislation. The collective pressure between us and the Scottish Government is to make sure that we get not just the bill but the secondary legislation through in time. We are working closely with officials to achieve that.

**The Convener:** Yes, the framework nature of the bill has been raised with us as well.

My final question is about the last paragraph of your submission. You said:

“The ongoing revenue costs of delivering the tax in its live state will also depend on areas of tax design yet to be finalised.”

It seems that there are still a few wee things that you are a bit unsure about.

**Elaine Lorimer:** Yes. For an example of that, as I mentioned in the previous evidence session in relation to data and information powers, we are

keen to make sure that we get our approach right on our access to data sets that exist elsewhere. If we can do that, our compliance work will be more digitally enabled and efficient. The practicalities for us are about how we administer the levy in a way that is data driven and digitally enabled. Mike Paterson might be able to come in with some more details.

**Michael Paterson:** I return to the example that I gave about the return period. There is a question of whether that will be based on a quarterly or a monthly basis, and whether a transaction will have to be returned to us after the completion of every house. Those questions relate to the kind of practical involvement that we will have in helping to design an efficient tax.

When it comes to those bits of detail, we have a good understanding of how that will go, but until the return period is finalised—for example, in the secondary legislation—that is the level of detail that we will need to work on.

I should say that James Lindsay is working closely with the bill team on formulating the recommendations for those regulations.

**James Lindsay:** I would just add that there are major products for all the taxes, such as the tax return and tax registration systems. We are working with our IT providers on building the tax return, but doing that at the same time as the bill and the secondary legislation are being developed is creating certain difficulties with regard to understanding how the tax will work and how it will flow through to a practical tax return and a tax return system. We are working closely with the bill team and our IT providers to make the system as seamless as possible but, as you have mentioned, having a framework bill makes things slightly more difficult. The difficulty is not insurmountable, though, and we have put preparations in place to manage it.

**The Convener:** I appreciate your diplomatic use of word “slightly” there.

**Elaine Lorimer:** As I think that I have said many times before, what we, from a tax authority’s perspective, would really like is for all the legislation to be tied up in a neat bundle and then to have a year or two to take it forward to implementation. However, that is not necessarily the situation here. The greater risk for us with regard to successful implementation lies in the policy being developed alongside our preparation of our systems, guidance and processes, and that is what we really want to try to avoid as much as possible.

**The Convener:** We are quite keen on nice, neat bundles, too, I have to say, but we are where we are.

I will now open up the session to colleagues round the table. I call Michael Marra, to be followed by John Mason.

**Michael Marra (North East Scotland) (Lab):** It is nice to see you all. In paragraph 6.3 of your submission, you say that the Scottish building safety levy

“does not have a UK-wide equivalent. The closest parallel is the ... England-only Building Safety Levy”.

Is that not an equivalent? I do not quite understand the distinction. Can you tell us the distinction between the two levies? Why you do not believe that to be an equivalent levy? After all, it essentially does the same thing.

**Elaine Lorimer:** The point that we were making is that this is unlike the other taxes that have been devolved. There is an established UK tax on aggregates, for example, so there is a lot of precedent and learning that we can take from HMRC in that respect. This one is different, because we are essentially starting from a blank sheet of paper. That is what we were talking about.

**Michael Marra:** So, it is, as you see it, the first new tax, because it is being brought in at the same time as levies in England and Wales.

**Elaine Lorimer:** Yes.

**Michael Marra:** Okay—it is useful to get that distinction.

I understand the point that the policy is not there yet, but I find the lack of certainty and clarity that you have been able to offer quite worrying. Elaine, your comment about your confidence in the ability to deliver a workable tax, given the absence of some of the key priorities, was quite damning in some respects, and I just want to probe that a little bit more. Have you had discussions with UK colleagues about the parallel development of the new tax? Can you say a little more about the considerations that they are having at the same time?

**Elaine Lorimer:** First of all, I did not intend to sound damning. I was just saying what, in an ideal world, a tax authority would like to happen, but we do not really live in an ideal world in terms of these matters, do we? I assure you that we are working as closely as we possibly can with the bill team. In fact, it is a great example of joint working; that team is working closely with us to understand what we need, and we are bringing our tax experience to bear on the policy development.

As for our contact with HMRC, I am aware that we have had contact with one member of staff down south. Is that correct, Michael?

**Michael Paterson:** Yes—certainly on key aspects of the design and on working out how the

industry operates. Obviously, the tax will not be administered by HMRC, but its expertise on the structure of ownership of residential developments by large corporates and so on will ensure that the rules that are being designed will work properly in those areas. That is the work that we have been doing with HMRC.

On the timing, it would, as Elaine Lorimer has said, be ideal if we had everything tied up neatly and ready and we had a long period to implement the tax, but we have to be conscious of the purpose of the tax, which is to raise funds for remediation work. We understand that pressure to raise the tax for that purpose, but I can assure you that one reason for bringing John McVey into his absolutely key role is to ensure that we plan properly and understand what we need to know and when we need to know it, to inform our own design and the design of the tax. With the plans that we have formed, we are confident—it will be tight, but we are working hard on it—that we will meet whatever timescale the minister offers for the start date of the tax.

11:00

**Michael Marra:** It sounds as if, in those discussions with HMRC, there has been very limited engagement on what is, I think, a very significant piece of work that it is undertaking. Do you understand its rationale for putting the policy in place at local authority level, instead of having a national tax? Why is it taking that approach, and why are we taking a different one?

**Michael Paterson:** This is not an HMRC tax—it is not one that it is taking forward. The tax, as constituted in England, is delivered through 320 local authorities—and so, one might argue, in 320 different ways, with 320 lots of costs. In terms of efficiency, we do not know what the costs will be yet, but the legislation in England sets out that every local authority can deduct those fees—that is, the costs that it has to incur—before the levy is paid over to the Ministry of Housing, Communities and Local Government. Because we are doing this through one authority, there will be only one tax authority that builders and developers will have to interact with.

**Michael Marra:** But does that mean that there could be a risk of a lack of sensitivity to local circumstances? The evidence that we have had from house builders is that a one-size-fits-all approach across the country risks having an impact on very different housing markets—Edinburgh versus the Highlands, for example. I understand your point about efficiency, but part of the trade-off will be greater sensitivity to local circumstances.

**Elaine Lorimer:** Of course, that is a policy matter with regard to how the tax is finally constructed. Our job is to ensure that, once those policy decisions have been made, we put in place guidance, systems and processes so that, if local discretion is built in—and I do not know whether that will be the case—we can administer it. Ultimately, though, it is a matter for ministers with regard to the tax policy and how they want to take account of local variances.

**Michael Marra:** That feels pretty fundamental to the operation of the policy. The bill is at stage 1 in its parliamentary process, but you think that a scheme could come forward that would allow for local operation. Would that not be a fundamental change to the way in which you, as Revenue Scotland, approached the issue in your work?

**Elaine Lorimer:** I do not want to make our job sound too simple but, ultimately, what will happen is that taxpayers will make a return, and the information required on that return will determine what is to be paid. Any differences in approach will be dealt with by way of a drop-down menu on the return. For us, it is about understanding what variations there could be and, if there are any, how we build them into, say, the tax return at the very beginning to allow them to flow through.

**Michael Paterson:** I can give you another illustration of the difference between what information is needed at what stage in the process and how our needs differ from the needs of the taxpayer.

One key component of the tax design is the annual levy-free allowance. You can well understand that taxpayers are acutely keen to know what that number will be, but as long as we know that there will be a number, we can build the system in such a way that we can slot in whatever number needs to go in. As long as we know that the number will exist and how it will work, what the actual number will be will not matter to the design itself.

People will have different needs, but we are very conscious that taxpayers will want to know that information, because we have to give them guidance. As for local market variations, if we know that there will be such variations, we can build that aspect into the tax return. Relatively speaking, that sort of thing will come further down the line and is not a fundamental point.

**Michael Marra:** There is probably a distinction to be made with regard to design: there is the design of the policy—that is, what it actually does—and then there is the design of your systems. It is worth clarifying that they are, in essence, two different things.

On the issue of timing, the legislative and policy development process for this levy feels very

different to the process for the Scottish aggregates tax. I know that you have set out the reasons for some of that, but my point is that we, as a committee, were able to look at that tax and understand the mechanisms and its general impact, even though the rate had not yet been set. By the time that the committee had reached this stage of the process with that tax, it was pretty clear to us what we, as a country, were getting as a result of it.

This time, the process feels simultaneously very slow—after all, we are eight and a half years on from Grenfell and the need to deal with this huge problem—and incredibly rushed in the way that it has been pulled together at this point in the parliamentary session. Can you tell us about the contrast that you have found between the process of developing SAT and developing this tax?

**Elaine Lorimer:** The starting point is different, because the aggregates tax was destined to be devolved as a result of the combination of the Smith and Calman commissions. On the other hand, this is an area on which ministers did not have the powers that were needed, so there was a long process, which I am sure that the minister will be able to tell you about, of achieving the powers for ministers via an order in council.

My understanding is that this is the first such tax where an order in council has been granted by the UK Government, and it involved a long process of quite sensitive negotiation between Scottish Government and UK Government officials. Therefore, it took a while to get to the same starting point of having those powers to introduce the tax.

The question, then, was what we could introduce in Scotland that would work in the Scottish environment. It has taken officials time to get to grips with that, closely working with the industry to understand the pressures, while at the same time adhering to the terms of the order in council, which we are quite constrained by. We can introduce only what lies within the powers that ministers have been granted.

What I can say, however, is that we have been involved with officials from the very early stages—indeed, before the order in council was even granted, which is earlier than has been the case for any of our other taxes. The working relationship between Revenue Scotland and policy officials in the Scottish Government is a really good example of how our being brought in right at the very beginning can help with the design of a tax, in so far as it is relevant to listen to us and our tax experience.

**Michael Marra:** When will taxpayers know what they have to pay, and the date that they have to pay it by?

**Elaine Lorimer:** You will have to ask Mr McKee that—I think that he is coming after us. The rates and bands of our other taxes are normally announced by ministers in due course, as part of the budget or in the final stages of introduction of the legislation. That is something that you will need to ask him about.

**Michael Marra:** I will, because there is great concern in the industry about the lack of a horizon that will allow people to predict their investment profiles for housing, at a time when we have an incredibly low completion rate for housing in Scotland and a national housing emergency. It has to be a concern that there is no visibility for the people who are making those investment decisions, unless we are talking years in the future.

**Elaine Lorimer:** I can certainly understand that, and we have always said about this and the aggregates tax—we also said it when we were looking at introducing an air departure tax some years back—that it is important for Revenue Scotland to have clarity, so that we can provide guidance and get taxpayers ready. What is really important is that taxpayers know; the sooner they have the clarity that they are seeking, the better.

**Michael Marra:** What do you think would be reasonable?

**Michael Paterson:** There are two levels to that. You have referenced a requirement for taxpayers to be able to plan economically for, say, the viability of a housing development. That is one level of planning, and I totally understand the issues in that respect.

However, from our perspective of designing a tax system, it is all about giving taxpayers the certainty that they need to understand how to pay the tax. The timescale in that respect is probably shorter than that required to work out whether a particular development is viable, but that is a separate consideration.

Taxpayers need that information on two levels. For us to make a tax work, the rate needs to be announced only so many months beforehand, but that is not the same as taxpayers being able to understand how a tax will impact on their business.

**Michael Marra:** There has been a decision to delay the equivalent tax—I am sorry; I should say “the non-equivalent tax”—in the rest of the UK. Was that decision made partly on that basis—that is, to give companies sight of that information?

**James Lindsay:** There was a delay of six months or a year for the UK tax. I do not know exactly why that was.

**Michael Marra:** I am thinking about this on a policy level, too. The “polluter-pays principle” is the

term that has been used, but many companies that build houses have never used the products in question—the products that have put lives at risk—and never will. Nevertheless, they are being asked to pay the levy. You have to maintain relationships with the sector, so is that “polluter pays” term language that you have used, and do you think that it is appropriate with regard to this tax?

**Elaine Lorimer:** That is certainly not language that we would use at all.

**Michael Marra:** Okay. Thank you.

**The Convener:** I call John Mason, to be followed by Craig Hoy.

**John Mason:** I have just one or two questions. I do not know whether you were involved in this, but it has been estimated that the tax will bring in £30 million. I am not entirely sure who calculated that—I think that it is based on what the UK would get—but the fact is that we have a slightly different system. Have you been involved in estimating how much money will come in, or is that just a figure that you have been given to work with?

**Elaine Lorimer:** Ultimately, the figure will be determined by the Scottish Fiscal Commission. I do not think that we will be involved in that, because, at this point, we do not have any information to provide to the Fiscal Commission, in the way that we do with our other taxes. So, no, we have not been involved in establishing the figure.

**John Mason:** That is fine—I can ask the minister about that.

One of the differences between this and the UK system is the timing of when people declare and/or pay. Have you been involved in those discussions? From an efficiency, or practical, point of view with regard to collecting the tax, is the time that we are proposing for declaration and payment good?

**Michael Paterson:** That very much brings me back to the example that I gave earlier. There is always going to be a compromise somewhere. People will ask, “Can we pay it next year?” or “Can we pay it a year later?”, and there is always a balance to be struck between the point in time that would be most effective for a taxpayer’s cash flow versus what would be a reasonable point in time, administratively, to collect the tax. We are involved in those discussions to determine the optimum point at which we can protect revenue while ensuring that the taxpayer has sufficient reserve to pay the tax.

**John Mason:** The English system—which, if I understand it correctly, does not provide developers with a certificate unless they have paid—seems quite draconian, if you like. However,

it is also quite definite. It would seem to imply—to me, at least—that, if a developer wanted to sell a building, they would have to pay the tax. Is our process a bit less certain?

**Michael Paterson:** In terms of what?

**John Mason:** Is it less certain that developers will comply and pay?

**Michael Paterson:** Elaine Lorimer has previously given evidence on our efficiency in collecting tax. We have a good track record in that respect.

The nature of this particular tax is that it very obviously involves large immobile assets that have many touch points with the Scottish state, either through local authorities or the Scottish Government. We know where the houses are and who the developers are. I think that it was a policy decision as to whether that conditionality should be included, but we are quite comfortable that we can administer the tax without it.

**John Mason:** If someone did not pay for some reason, there would just be a penalty, as we were talking about earlier.

**Michael Paterson:** Yes, and it is for us to collect that fine.

**John Mason:** With regard to paragraph 4.5 of your submission, which relates to the phases of the delivery process, is what it sets out the normal order of things? It says that phase 1 is the business case; however, that did not happen first. The first thing to happen was phase 2—that is, the design and development of the programme, which took place from January to June 2025—and only after that was the business case developed. Is that the normal sort of order?

11:15

**John McVey:** The design and development of the programme was put together while the requirement for Revenue Scotland was being discussed with the bill team and we were becoming aware of the policy and legislation. We needed information for the business case, and once we had some of that detail, we were able to start working on it. I should point out that we are following the five-case model. The design and development of the programme involves understanding what the requirement is and developing a business case, based on that requirement.

**John Mason:** Fair enough.

**Craig Hoy:** I have a couple of quick questions. Any of us who have had casework on behalf of our constituents will know that, when something has gone wrong in relation to property developers and you check out the developer, you may find that

many limited companies and other corporate constructs have been created around the business. How alert are you to that practice in the property development industry? If directors are not to be made liable for recovery of tax, how alert are you to the evolving nature of those corporate structures? Unless you recover the moneys at the point of the certificate of completion, those who are unscrupulous might find ways around the system.

**Elaine Lorimer:** Revenue Scotland has teams whose background means that they have a lot of expertise in working with business. That understanding of constructs of commercial entities plays out across our existing taxes. That is the expertise that we would bring to bear there. I do not know whether Mike Paterson wants to add anything.

**Michael Paterson:** It is exactly that. One of the key areas that James Lindsay has been working on is precisely that level of understanding of the safeguards that are needed.

**James Lindsay:** I would lean on engagement with industry experts on that point. If we understand the corporate and other types of structures that developers use, we can best understand risk and how we should apply the rules to prevent non-compliance.

**Craig Hoy:** If the legislation specifies what a small development is and exempts that, how, in practical terms, could you get around a developer who does a 20-property development under the guise of four corporate entities that develop five homes each?

**James Lindsay:** In tax terms, that is about connected party rules. You have a corporate group in which company A owns company B and company C. They could add companies D, E and F and take advantage of the levy-free allowance. We create connected party rules to treat them as one entity, so that they get only one levy-free allowance balance. There are complexities, depending on the structure. We are doing a scoping exercise to best understand the different types of complex structure out there in order to inform our connected party rules and prevent that sort of manipulation.

**Michael Paterson:** It is an area that we are very alive to. It is familiar in broader areas of tax, so we are leaning on that broader experience of how to deal with it. Other taxes at UK level have similar concepts and we are borrowing those to ensure that they are incorporated into the rules.

**Craig Hoy:** A lot of the devil in the detail will be in the secondary legislation. Presumably, you do not want the penalty regime to be disproportionate, but you want to ensure that it is a disincentive to anybody to misbehave. How far are

you down the road of constructing what the penalties would be to ensure that they are proportionate and that the industry has some foresight of them?

**James Lindsay:** Revenue Scotland has an established penalty regime and tax framework for other taxes, and the Scottish building safety levy will bolt on to that existing penalty framework. At this point, there has been no decision to have specific penalties for the SBSL, because our existing tax framework should cover us for that. If we realise that we need a penalty, we will work with the Government to introduce one.

**Craig Hoy:** I presume that failure to register would be one of the things that would attract a penalty.

**Elaine Lorimer:** That is already in there.

**Liz Smith:** I know that you cannot comment on tax policy decisions but, in light of the information that we have received from a number of stakeholders, are you concerned about the level of criticism of the potential unintended consequences of the tax? Has that formed any part of your discussions with the Scottish Government?

**Michael Paterson:** We understand the commentary but, as you say, that is essentially a policy matter. We are acutely alive to what implications that could have in terms of the design and so on, but we have nothing else to offer beyond that.

**Liz Smith:** Are you aware of the potential impact, and has the Scottish Government discussed that with you?

**Michael Paterson:** I do not think that the Scottish Government needs to discuss that with us, because issues such as what a levy fee allowance would look like, or the potential impact of any transitional rules are pure policy matters that we would not necessarily have any particular views on.

**Liz Smith:** Does the level of criticism—particularly that the committee has heard from stakeholders—concern you at all? Is that a warning signal that the tax could have unintended consequences? Quite frequently, during committee evidence and through the submissions that we have received, it has been put to us that there are quite a lot of possible unintended consequences. There is the issue that Mr Marra referred to, which is that some people who could end up paying the tax would not be responsible for the problem. If we go back to what you started with, surely, the principles of Adam Smith are very important for the delivery of the tax. Irrespective of the fact that you cannot comment on the specific policy issue, are you concerned that people are unhappy about some of it?

**Elaine Lorimer:** It is rare to find an individual or a company that is delighted to pay tax. Seriously, we place listening to the industry and stakeholders at the heart of how we design our approach to the administration of tax. We have been very much involved with the Scottish Government through the expert advisory group and we have engaged with stakeholders. Mike says that he is aware of the issues because we have sat in rooms and heard the discussions. Ultimately, it is for ministers to make those decisions.

From a tax authority's perspective, once the tax goes live, it is down to us to ensure that we can administer it well. If we had any concerns, they would come in at that point. We would want to have a tax that we think that we can operate well.

**Liz Smith:** I completely understand that, because it is your job to make it work. The committee is looking at the tax policy as well as at your role. I am asking whether you are aware that the Scottish Government is concerned about the level of criticism that has been received so far, never mind what the policy might end up being.

**Elaine Lorimer:** The Scottish Government runs the expert advisory group and engages with the industry, so it will have heard from stakeholder groups. I cannot tell you what it is doing on the back of that; it is for the Government to discuss that with you. Certainly, the points that the industry has made to the committee have been made elsewhere.

**Liz Smith:** Finally, are the issues that the Scottish Government is talking to you about regarding this tax more concerning than the issues that it is talking to you about regarding other taxes? Do you feel that the Scottish Government thinks that there are more concerns about the potential problems with this tax than other tax policies?

**Elaine Lorimer:** From our perspective, without a doubt, the tax has its complexities, partly because we started from a blank sheet of paper. That needs to be taken into account. There is nothing that either the industry or the Government can fall back on, if you like, so listening to and engaging with the industry, while also holding on to the policy intent, is quite a difficult job for Scottish Government officials. That is one of the reasons why we are so pleased that we have been involved, because we can assist officials with that.

**Liz Smith:** The concern from quite a number of stakeholders is a bit broader than that—namely, they feel that there are too many potential circumstances in which there might be unintended consequences. That is not all to do with the fact that the tax is a new one and there is no data to fall back on. There are serious concerns about the implications and how the Adam Smith principles

might apply. I know that you cannot answer from a policy perspective—

**Elaine Lorimer:** That is for the minister.

**Liz Smith:** Okay.

**Michael Paterson:** We are certainly allowed to make sure that the bits that we can control—those that are not policy based—work efficiently and effectively. Those are our key drivers.

**Liz Smith:** Thank you.

**Michelle Thomson:** I want to follow up on the issue that Craig Hoy raised. House-building companies commonly use special purpose vehicles, particularly for phasing—those are extremely common. Clearly, that represents a risk for your ability to collect. You mentioned connected party rules, which is the standard approach, but the issue is more complex than that, because payment will occur quite late on in the process and the Scottish Government has deliberately set that to be so. The usual remedy would be to ensure collection up front, as far as possible. That seems to me to be quite a risk. What assessment have you made of the risks around the cost of collection in that scenario? The other remedies that you have can be quite expensive and time consuming.

**Elaine Lorimer:** Cost of collection here is about the compliance effort that we put in. I think that you are talking about our approach to compliance for more complex constructs. Because we are mindful of the revenues, we have a small team for the building safety levy—we are talking about three additional compliance staff who will focus on the levy.

Mike or James can come in, but I imagine that much of the work of that team will involve focusing on those risk areas. That is why we need to ensure that our system is set up in such a way that the easier payments can be made without our having to do much compliance intervention. I imagine that, when the tax is live, those are the sorts of areas that we will want to target in our initial compliance activity.

**Michelle Thomson:** That is a standard sensible approach. I am trying to tease out the risks of the detail coming through in secondary legislation and you saying, "Oh, right. I wish we'd known that up front." The figure that has been bandied around is £30 million, but the basis for that is pretty loose, and only time will tell.

**Elaine Lorimer:** If we find that we need to put additional resources into the tax to ensure that it is running efficiently and as intended, we will need to pick that up with the Scottish Government later in the process. However, our starting point would be whether we can bring to bear folks from elsewhere in Revenue Scotland, and we would then consider

whether we needed additional staff. Obviously, we did not just say that the revenue will be £30 million so the cost will be £300,000—we were a bit more sophisticated than that. However, we are conscious that, because the tax is new, we need to build a small team that will focus on it.

We have some really excellent tax staff, including James Lindsay, working on the tax design, which means that we will, I hope, inherit something that is capable of being well administered. We also have staff supporting James with the tax design, which means that our staff who eventually take up the role of the compliance team will not be starting with a blank sheet of paper; they will be starting from a deep understanding of the tax and the policy behind it.

**Michelle Thomson:** Do you not think that there are risks? Down south, the tax will be linked to the completion certificate—people will not be able to get that until they have paid the tax—but that is not the plan here. That seems to be a kind of—

11:30

**Michael Paterson:** We already run self-assessed taxes where we do not necessarily have that external control to prevent something unless the tax is paid. That is how self-assessed taxes work. However, we are acutely aware of the issues. For example, the concerns that you are raising about SPVs relate purely to tax design. We will bring our experience to that and say, “We need to work out this situation,” or, “If that happens, how will the rules cope?” James is really deep in that kind of thinking.

Some of those details can be amended. A key issue for us is that tax does not sit still, which means that we have to ensure that we have a maintenance programme so that our approach is up to date. In that maintenance work, we might find an issue or see that a definition is not working well, so we need to tweak it. That is how tax works. At the moment, our role is to anticipate and prevent.

**Michelle Thomson:** The complexity of the issue and the detail that we agree is required take us back to the timescales that Elaine alluded to earlier. That work has to be done for you to have a level of comfort that the tax can be collected in the manner in which you want.

**Michael Paterson:** I could contrast that with the example that I gave earlier. The tax-paying public will acutely want to know what the levy-free allowance is set at, for example. However, the timing of that matters less to us, whereas the issue that you are talking about—the particular rules on how SPVs are accounted for—is one that the outside world may not be particularly interested in. For us, we really want to know that level of detail,

and we are working on that and looking at the possibilities and how that will be designed.

We are looking at that now, so that we can advise the Scottish Government on how that should be structured. That detail will emerge, and we are helping the Scottish Government to decide what the rules should look like when they come through.

**Michelle Thomson:** I have a final wee question about councils’ involvement. They are able to use section 75 as another mechanism for warding off bad behaviour. Are they involved in discussions on the issue?

**Michael Paterson:** We have representation from the Convention of Scottish Local Authorities on my programme board to advise. We are not specifically dealing with the potential of section 75, because that is not a tax as such. That would be an additional control, and we do not have that built in at the moment.

**Michelle Thomson:** Thank you.

**The Convener:** I thank our witnesses for their evidence. Is there anything else that you wish to point out to the committee?

**Elaine Lorimer:** No. Thank you for having us.

**The Convener:** You feel that everything has been covered.

Thank you, Elaine, for all the years of service that you have given to Revenue Scotland and I wish you all the best in your retirement. I am sure that you will be sadly missed by your colleagues and, indeed, by the Parliament. I wish you all the very best in your future endeavours.

**Elaine Lorimer:** Thank you very much, convener.

**The Convener:** We will have a two-minute break to allow a changeover of witnesses.

11:33

*Meeting suspended.*

11:39

*On resuming—*

**The Convener:** We continue our evidence taking on the Building Safety Levy (Scotland) Bill. I welcome to the meeting Ivan McKee MSP, Minister for Public Finance. The minister is supported by officials from the Scottish Government: Stephen Lea-Ross, director of the directorate for cladding remediation; Lorraine King, deputy director of the directorate for tax; Hannah Taylor, bill team leader in the directorate for tax; and Hugh Angus, a lawyer in the legal department.



I refer members to my entry in the register of members' interests.

I welcome our witnesses to the meeting and invite the minister to make a short opening statement. Good morning, minister.

**The Minister for Public Finance (Ivan McKee):** Good morning, convener. Thank you for inviting me to give evidence to the committee on the Building Safety Levy (Scotland) Bill, which, as the committee will know, has been introduced in response to the Grenfell tragedy.

The Scottish Government initially called for a four-nations approach to cladding remediation, including how it should be funded. However, the UK Government pressed ahead with proposals for an England-only measure through the Building Safety Act 2022, which provided for the introduction of a building safety levy on the development of new residential buildings.

In the absence of an equivalent levy in Scotland, the introduction of a levy in England would create a gap in the funding that is available to address cladding remediation in Scotland. It would also mean that developers would contribute to the cost of cladding remediation in England through a building safety levy, but would not do so in Scotland.

As the committee will be aware, the Scottish Government's capital budget position is challenging over the medium term, with cladding remediation expenditure representing a significant and sustained pressure. Therefore, our programme for government 2024-25 contained a commitment to introduce a Scottish building safety levy to support the funding of cladding works in Scotland.

The estimated revenues from the levy will be in the region of £360 million to £450 million over its expected lifetime. With no corresponding block grant adjustment, those revenues will make an important contribution to the estimated £1.7 billion cost of the Scottish Government's cladding remediation programme.

The committee has just heard from Revenue Scotland about the collaborative approach that we have taken with that body in co-designing the bill, utilising its extensive experience and expertise in tax collection. The financial memorandum for the bill sets out the indicative costs for Revenue Scotland's administration of the levy. At 2 per cent, those costs are small relative to the overall revenues and are proportionately less than the UK Government's costs for its levy.

The bill sets out provisions for a Scottish building safety levy that broadly align with provisions for the equivalent levy in England, to ensure consistency for those operating on both

sides of the border. However, in some areas, we have taken a distinct approach to adapt to the Scottish context. For example, we responded to concerns from parts of the industry about the tax point for the UK levy being set too early in the development process, which may cause cash-flow issues. We have also designated Revenue Scotland as the collection authority, as opposed to the UK Government's approach of designating responsibility to each of England's 296 local authorities. That will make the process in Scotland easier for developers.

Throughout the process of the bill's development, we have been mindful of the strong need for new housing in Scotland and the importance of avoiding disproportionate impacts on the viability of new development projects. That is why we have gone further on exemptions by including exemptions for developments that are built on islands, in recognition of the acute housing pressures that Scotland's island communities face. In addition, our levy-free allowance is designed to protect small and medium-sized developers, who would be less able to absorb the costs of any levy.

Taken together, the measures in the bill are intended to target the areas of the house-building sector where viability pressures are most likely to arise. Overall, however, we share the UK Government's assessment that the levy is not expected to have any significant macroeconomic impacts and that any negative impacts on supply will be small.

Notwithstanding the above, I recognise that the industry has raised significant concerns about a lack of clarity on levy introduction and about the need for lead-in time and the publication of rates in advance of introduction. In response to that, and to ensure that industry has appropriate lead-in time, the commencement date for the levy will be deferred by one year, to April 2028. In addition, the Scottish Government will set out indicative rates in June 2026, after the Scottish Parliament election.

The measures that I am setting out today will provide industry with around 22 months from the publication of rates to prepare for the introduction of the levy. Allowing for a significant period of lead-in time in that way means that the levy will apply to all relevant completion certificates that are accepted on or after 1 April 2028, which negates the need for complex transitional arrangements.

The UK levy has received cross-party support, and the Building Safety Levy (England) Regulations 2025 were recently passed unanimously. I am seeking to obtain a similar level of cross-party support in the Scottish Parliament. I welcome the committee's scrutiny of the bill and look forward to members' questions and the discussion ahead.

11:45

**The Convener:** Thank you for that opening statement. The most interesting thing to come out of it is the one-year deferment, which has come out of the blue as far as the committee is concerned.

On the figures that you gave—£360 million to £450 million—I assume that that is over a period of 12 to 15 years. You also mentioned the figure of £1.7 billion, so 20 to 25 per cent of the cost of cladding will be paid for by the levy if it is collected at £30 million a year.

If the levy is going to be deferred until 2028, does that mean that work on cladding remediation will be deferred? Work has been undertaken on only a couple of buildings so far, yet it is more than eight years since Grenfell.

**Ivan McKee:** That is a good point. If we look at the numbers, we can see that a relatively small percentage of the total cost of the remediation is covered by the levy. The remediation timetable, which is outside the scope of what we are talking about and has been taken forward by the Cabinet Secretary for Housing, is running as fast as it can in terms of the on-going work around the call for buildings to be identified so that they can be assessed. The funding is in place for the assessment of those buildings, and the work to get developers signed up to that activity, where the developer is identified, is continuing—the delay from the deferment has no impact on that.

It is worth recognising that the remediation is being implemented earlier in England because the transitional arrangements there are configured at the building control stage. That is earlier in the process than the completion certificate stage. There is recognition that there is quite a lead-in, so the revenues in England in the first year will be a small percentage of the total revenues that are expected in future years, when everything has flushed through the transitional arrangements.

Within the process that we are implementing, taking the revenue charge at the completion certificate stage means that we will immediately start to gain the full revenues from 2028.

**The Convener:** If bringing in the levy in 2028 will not impact on remediation initially, does that mean that 100 per cent of the cost of initial remediation will be met from existing taxation streams?

**Ivan McKee:** In the stage that we are going through, funding has been put in place for the assessment works. I think that it is £24 million, but, as I said, that comes within the portfolio responsibility of the Cabinet Secretary for Housing. Following that work, as the assessments are completed, the remediation work will start.

That will be funded through the Scottish Government's capital programme; we expect the bulk of the work to be funded in that way.

**The Convener:** When we took evidence from the developers—we took evidence from two panels, neither of which was particularly enthusiastic—one supported the levy and others did not. Another concern that was raised was the fact that the levy is to be imposed on developers, some of whom have had absolutely nothing whatsoever to do with cladding, whereas people who were directly involved in cladding, such as the designers, architects or manufacturers—some of whom might not be in the country—are not being expected to pay. Frankly, there is a real sense of bitterness among some of the developers, who are asking why they should have to pay for someone else's mistakes when the people who actually made those mistakes are not being expected to pay anything. That is a major issue with the levy.

**Ivan McKee:** The reality of where we are is that either the funding has to come from the Government's capital budget—as the bulk of it will—or a relatively small proportion of it has to come from the industry. We are taking the same approach that has been taken down south in that regard, and we think that it is a proportionate response.

There is obviously scope for developers who are responsible for dealing with identified buildings that they were involved in to take measures to address that by pursuing the supply chain further down. It is true to say that we have extended the period in which developers are able to do that, but, as you identified, the complexity is such that the right option for us to take is to levy the charge on the developers for some of the cost.

**The Convener:** Ultimately, the levy will be paid by house buyers, will it not? For example, if there are 10,000 houses in a year that qualify, the levy will effectively put up the price of those houses by £3,000. Developers will not take the cost out of their profits; they will pass it on to house buyers.

**Ivan McKee:** It is a competitive market with a lot of different pressures on it, so it will depend on the situation for the particular developer. The market price is set by a range of factors, so it might well be that there is a mixture. How much of the cost developers absorb from their profits and how much of it is passed on will vary depending on the developer and the circumstances.

**The Convener:** How tied is the Government to the figure of £30 million a year? Will there be flexibility in the amount of the levy? If only 7,500 houses are built in a year, does that mean that the levy might be £4,000, or will it stick at £3,000—or whatever the figure happens to be? If it sticks at

£3,000, for example, you would get only £22.5 million. Where are we in relation to flexibility?

**Ivan McKee:** First, it is important to recognise that, if the money does not come from the developers, it would need to come from the capital budget—from the Scottish Government's general taxation—or we would have to spend less on other public services. That is clearly the only alternative.

Regarding where the number came from, that is the amount that we would have received had we had a consequential share of the money that the UK Government is raising through its levy.

In relation to the specifics of the charge, there is scope, through secondary legislation, for ministers to decide the amount of the levy when we put it in place annually. Future ministers will be able to decide how much they want to raise from the levy.

As I say, the policy intent at this stage is to reflect the equivalent of what is intended to be raised by the levy in England.

**The Convener:** The definition in the bill includes purpose-built student halls of residence, but there is an intention to exclude from the levy hotels, residential accommodation where personal care is provided, hospitals, hospices, prisons, residential accommodation for school pupils, affordable housing and so on. However, we have a range of other caveats from the developers that they hope that the Scottish Government will look at. For example, some have said that the levy should not apply to developments of fewer than 50 units—I can imagine the impact on the collection of the levy if that were brought in. Others say that rural areas such as Knoydart should not be included. There is a whole load of different possible caveats.

How open is the Scottish Government to considering such caveats? Developers have said that the levy will be a disincentive in relation to some sites. That will mean that fewer houses will be built, which will impact on housing supply. In addition, if four people, on average, are usually employed to build a house, and they are not employed to build that house because of the impact of the levy, they will not be paying taxes, which will have a wider impact on taxation in Scotland.

The developers say that the unintended consequences could be significant. What work has the Scottish Government been doing to look at that issue? Is there any elasticity in that regard?

**Ivan McKee:** In relation to the housing market, the Cabinet Secretary for Housing and I regularly meet Homes for Scotland, developers and others in the sector to understand their issues and concerns. We recognise that, to tackle the housing emergency, everyone needs to play their part, so

we are very conscious of the feedback from developers in that regard.

I go back to the point that the funding has to be raised from somewhere, so if it is not raised from developers through the mechanism in the bill, it would have to come from other parts of the Government's capital expenditure. That would have an impact on other capital programmes, public services or taxation, which could, in turn, have a detrimental impact on economic growth. Whichever way you look at it, there are potential impacts.

A case could be made for many different exemptions. We have tried to work the issue through in a way that reflects the Government's priorities on affordable housing and some of the other uses that you have mentioned—I am referring to refuges and so on. The islands exemption takes into account the parts of the country that are generally reachable only by boat, which is the definition that is used for those remote areas.

In addition, the approach that we are taking to a threshold on the levy, by giving each developer an allowance, will disproportionately support small and medium-sized developers. We also expect that it will disproportionately support rural communities, where smaller developers are more likely to build. Impact assessments have been done for the bill.

**The Convener:** I suppose that, to an extent, we are in Laffer curve territory. Basically, developers are saying that the building safety levy could have a bigger impact on the overall income of the Scottish Government if it has the unintended consequence of reducing the taxation that comes from other areas. For example, Miller Homes said that, a few years ago, it built a quarter of its houses in Scotland but now the figure is only 14 per cent, because it feels that the regulatory burden here is already too high relative to that in other parts of the UK, notwithstanding the legislation that has been passed in England. What would you say to companies such as Miller Homes that feel that they will have to pay yet more, when they are already paying in the region of £25,000-plus in tax per new house?

**Ivan McKee:** I would say that we are conscious of the concerns that developers have. We engage extensively with the sector on such measures. As you rightly identified, the building safety levy is being applied right across the UK, so I do not think that that would be a reason for a developer choosing to build disproportionately fewer properties in Scotland than in the rest of the UK, where the levy is also being implemented.

**The Convener:** Many developments include an affordable housing component. If there is any

reduction in the amount of private housing that is built, what impact will that have on the delivery of affordable housing?

**Ivan McKee:** First of all, affordable housing is exempt from the levy. You are correct to say that all these matters have to be considered in the round as part of our discussions with the sector and others about the need to support house building. However, I take you back to the point that, if the sector did not make the proposed relatively small contribution to the overall costs of addressing cladding, those funds would have to be raised elsewhere.

**The Convener:** There is a recurring theme here.

Developers have said that developments on brownfield sites cost more because of the need for remediation, and they are looking for relief for such sites. However, given that it is envisaged that the levy will bring in £30 million, if we have reliefs and we exclude sites of a particular size, sites in rural areas and so on, the net in which we can catch people will become smaller, which means that the fee will have to go up or less will be collected. Where are you as regards discussions on the issue of urban brownfield sites?

**Ivan McKee:** We are very conscious of that issue. We have indicated that there will be relief for brownfield sites; we just need to work through the details of the extent of that relief. In England, it is a 50 per cent reduction, so developers pay half the levy for developments on brownfield sites. In Scotland, we are very conscious of the need for relief for such sites, because of the additional remedial costs and because of their location in town and city centres, where we want to encourage development.

**The Convener:** If you want to collect the same amount of money, will that not mean that greenfield sites will be impacted more?

**Ivan McKee:** That is absolutely correct. There is obviously a balance to be struck in relation to how we pursue our policy objectives. We must balance our policy objectives against the cost to those who will not be covered by the reliefs.

**The Convener:** Thank you. I open up the session to colleagues around the table, starting with Michael Marra.

**Michael Marra:** Good afternoon, minister. The polluter-pays principle has been raised. Is the building safety levy a polluter-pays tax?

**Ivan McKee:** It is important that the sector is asked to pay the tax. A building safety levy is a measure that has been taken forward by Conservative and Labour Governments south of the border, so our establishment of a building

safety levy is absolutely no different from what is happening elsewhere in the UK.

**Michael Marra:** Do you recognise that the tax will be paid by people who have never used the materials that we are talking about or built any of the buildings in question?

12:00

**Ivan McKee:** I recognise that that may be the case in some situations. As I say, the levy is being taken forward on exactly the same basis as in the rest of the UK. If the fund was not raised in that way, it would have to be raised either through taxation or less investment in public services, and the impact of that would be felt by people who also had no direct involvement in creating the situation that we find ourselves in with these buildings.

**Michael Marra:** Is a lack of capital resulting in slow progress on dealing with remediation in Scotland? In quarter 2 of 2025, only three single building assessments have been completed, whereas in the rest of the UK and England, work on 2,490 buildings has either started or been completed. Is the availability of money the issue, or is there another reason why our performance in dealing with this crucial safety issue in Scotland is dramatically worse than it is in the rest of the UK?

**Ivan McKee:** As I said, my colleague Màiri McAllan is taking that work forward. I will perhaps ask officials to comment on some of that, because they are closer to the detail, but there are fundamental differences in the market in Scotland. For example, the ownership structure of the buildings is different. Their nature is such that they will have many occupants. In Scotland, that would obviously be a situation where there are many freeholders, whereas in England it would typically be a leasehold environment, so finding the single owner—the freeholder—of the building is much easier. In Scotland, that is much more complicated.

There was also a gap in legislation. To enable ministers to engage in the process, legislation had to be put in place to get us to the stage where we could engage with building owners or occupants. There is also the question of how you marshal that in order to take forward the delivery of the remediation, because, again, you are in that freehold environment—multiple freeholders compared with a leasehold environment makes for much more complication.

**Michael Marra:** On that basis, it is not the availability of capital in the short run that has been the problem. You are setting out a series of other very reasonable issues, but it is not the availability of capital that has been the issue.

**Ivan McKee:** Exactly. Funds have indeed been put in to support the evaluation work to assess the extent of remediation that will be required.

**Michael Marra:** Do you anticipate that the advent of the levy funds will significantly accelerate that work?

**Ivan McKee:** No; the funds that are raised from the levy, as the convener said, are a relatively small proportion of the total funds. The bulk of the lifting will be done by the Scottish Government's capital budget.

**Michael Marra:** The £30 million that will be raised by the levy is less than 2 per cent—1.76 per cent—of the overall cost. I know that the levy will raise £30 million per annum, but that is less than 2 per cent of the £1.7 billion that you identified.

**Ivan McKee:** If you take that over the lifetime of the 12 to 15 years, you are talking about the levy contributing 20-plus per cent; it is in that range. If you take the number that you have and multiply it by 12 or 15, you end up at 20 to 25 per cent of the total cost environment. The Scottish Government funding for the remediation as it gets identified and requires to be done will be a balance, and that balance will obviously change over time.

**Michael Marra:** Given the evidence that we have had so far from the industry and stakeholders, I am sure that the delay that you have announced today will be welcome. Have you just picked an arbitrary date? For instance, for the levy in England, clarity on the rates that were to be set was provided 18 months before the commencement of the tax to allow for investment planning. Would it be better to have that kind of window in our legislation rather than a 2028 start date, or are you confident that, by the middle of 2026, the Scottish Government will have passed all the secondary legislation and have all the details in place, particularly given that we have an election in that period? That feels to me to be quite ambitious.

**Ivan McKee:** The date we picked gives a 22-month period, which is important. It is set at April 2028, because it is the start of a new financial year. You could pick another date, or do what you suggest, but our approach gives clarity on when the date will be.

We have committed to taking forward the secondary legislation, which we believe is perfectly doable. If the bill goes through stage 3 prior to the end of March, the new Government will be in a position, when it comes back after the election, to make decisions on those rates.

**Michael Marra:** There will be clarity about the implementation date but not a trigger for the date for the information set that the sector is looking for, which is how much the levy will cost the sector

and how it will operate. At the moment, you are just setting the end point rather than the trigger for the information about the levy. Looking at the short period that is available—not just in this committee—are you confident that you can get all that done? Is the idea to introduce secondary legislation after May but before the recess?

**Ivan McKee:** That is the intention, yes.

**Hugh Angus (Scottish Government):** I am not sure that we are planning to complete the secondary legislation in 2026.

**Ivan McKee:** Just to be clear, we will be in a position to be able to give the 22-month notice to developers on the rates and reliefs but not necessarily complete the secondary legislation. That is a point of legal clarification—we will not have all the secondary legislation, but we will have the parts that relate to the reliefs and the rate of the levy.

**Hugh Angus:** The intention is that the rates will be given indicatively.

**Michael Marra:** Mr Angus, could you repeat that into the microphone? I realise that you are giving advice to the minister on the hoof, but it would be good for us to hear it as well.

**Hugh Angus:** The timetable for secondary legislation is not yet confirmed. It is unlikely that the secondary legislation will be completed in 2026, but the rate of tax for April 2028 will be given indicatively after the election.

**Ivan McKee:** I believe that that is the process that was followed down south, where indicative rates were given 18 months ahead of the secondary legislation.

**Michael Marra:** Okay, that is useful—thanks.

**Craig Hoy:** At the heart of the issue is public safety—people's lives in buildings that are presently unsafe—and people's livelihoods, because there are people who presently cannot or find it difficult to sell their property due to the cloud that hangs over them. The UK Government has said that, by 2029, 95 per cent of buildings that are taller than 11m will either have been remediated or a date for completion will have been set. What is the Scottish Government's target in that respect?

**Ivan McKee:** Again, that is outside my portfolio. I will defer to officials to give some background information on that question.

**Stephen Lea-Ross (Scottish Government):** In the Cabinet Secretary for Housing's updated plan of action, which was published this August, she set a target date of the end of 2029 for the remediation of 18m-plus high-rise and high-risk buildings. That target date is to galvanise activity across the sector. By that point, all other buildings that have been assessed to require further

mitigations or remediation works will have a date for completion.

**Craig Hoy:** Minister, do you anticipate that the one-year delay to the introduction of the levy will have an impact on the ability of the industry to meet that target?

**Ivan McKee:** No, as I indicated earlier.

**Craig Hoy:** Okay. My next question is about the funds that the Scottish Government has already received for remediation. In 2021, you received £95 million from the £1 billion building safety fund. What has that money been spent on?

**Ivan McKee:** All that money will eventually be spent on the remediation of buildings, but the issue is that we need to go through the legal process of identifying who the building owners are—we had to put in place the legal powers to do that. We need to go through the call for bringing forward buildings and then the assessment process, which has been funded, before we can start the remedial works. Work has started on a small number of buildings, but—

**Craig Hoy:** So, that money was spent in-year, and you will have to use future revenues to make up for that.

**Ivan McKee:** Yes, and if I were sat here with an underspend, I am sure that you would have something to say about that as well.

**Craig Hoy:** Fine. With regard to exemptions, if there is a greater number of exemptions or a wider scope for them, the levy will bring in less income. Given that there is an acute rural housing crisis, we have heard from several stakeholders that exempting one part of rural Scotland—for example, the islands or hard-to-reach geographical territories—will not take account of the fact that the levy could have significant consequences in other rural areas. You mentioned thresholds in the levy, but would it not be simpler to identify a definition of rural Scotland and to exempt that entirely?

**Ivan McKee:** Those housing issues affect all local authorities across the country, including in urban areas. There are clearly significant challenges in our cities—nobody would deny that. If we get into defining what we mean by the terms rural, semi-rural, small town, large town, city, or suburban, we could end up in quite a complicated space. We have stuck clearly to the definitions of rural and remote that are already in place. As I said, the application of the thresholds will significantly and disproportionately provide beneficial support for rural areas.

**Craig Hoy:** Last week, Scottish Land & Estates put forward what it thought would be a good working model for a definition of rural Scotland. Would the Government be prepared to look again

at the exemption to give clarity and surety to areas where there is an acute housing problem?

**Ivan McKee:** We are happy to look at that, bearing in mind the fact that the more exemptions that are introduced, the more the impact would fall elsewhere, as has already been said.

**Craig Hoy:** Why do you think that the majority of property developers and construction companies that have appeared before the committee are so opposed to the levy, not just in principle, but to the practicalities of the way in which the bill sets out the levy's proposition?

**Ivan McKee:** You are asking me why organisations that may have to pay more tax are opposed to having to pay that tax.

**Craig Hoy:** It is not just the concept that they are opposed to; they are saying that the practicality of it is significant. Mr Marra has referred to the principle of it, which is that some of the construction operators have had no interface with cladding at all and are saying that they would have to pay for the sins of others in the industry. Would you accept that there is a flaw in the design of the proposed levy?

**Ivan McKee:** I think that that is the reality of where we are. No developers have been identified for a significant proportion of those buildings. As you have identified, the issues have to be addressed for public safety reasons. We had to make a choice about whether all the costs were carried by public finances or only a significant majority of them, with an ask to the sector to contribute towards the costs. We have taken that approach, which is the same approach as the rest of the UK. We are seeking to work on the detail of the levy and engage with the sector extensively to understand its position.

I believe that what I have announced today, and other steps that we have taken to provide mechanisms for relief, will be helpful for developers. In Scotland, Revenue Scotland will implement the levy, rather than having 296 different local authorities collecting it. We will also have one rate in Scotland compared to almost 600 rates in England, which will make it easier for developers. We will collect the levy at completion certificate stage, rather than at building control stage, which will significantly help developers' cash flow, because they will have to pay the levy only at a point that is much closer to when they will get paid themselves. We are working hard to see what can be done with the sector to make the process as supportive as it can be, given the fact that we are asking people for money.

**Craig Hoy:** The developer community is saying to us that construction and product manufacturers and companies that have produced cladding are effectively getting away scot free. I recognise that

many of them will have disappeared from the scene in the past eight years. What consideration has the Scottish Government given to extending the scope of the levy to include those who manufacture the products?

**Ivan McKee:** From a practical point of view, that would be extremely challenging. Officials might want to comment on that, as they have been closer to the detail and would have investigated that. We came to the same conclusion as the UK Government on that for many of the reasons that you have identified, such as that many of them will no longer be around, and many will be international companies, so it would be hard to identify their involvement. We have made a provision to extend the time period for up to 15 years to enable developers to pursue supply chain companies.

**Hannah Taylor (Scottish Government):** The power that was devolved by the UK Government allows us to place tax on the building standards process only. Extending the building safety levy to include any product manufacturers would be technically difficult.

**Craig Hoy:** That is helpful to hear. The industry is also concerned that there is no sunset clause in the legislation. In evidence from architects and fabricators, we have heard concerns that, in any 10-to-15-year window, another scandal could come along. They have identified a couple of potential areas where we should have cause for concern. To what extent should the developer community assume that this is a tax that is here to stay, or would you support their calls for a hard stop to be put in at a certain point, even if that is 10 or 15 years from now?

12:15

**Ivan McKee:** It is important to say that we all agree that the remediation has to be carried out. We will not know the full scale of remediation that is required until all the assessments are done, so at this stage we would not be able to put a final end date on it. We are working to an assessment at this stage that is based on the best available information, and that is broadly in line with the assessment that has been made south of the border. The ability to predict future technical challenges in building construction is probably outside the powers of Scottish Government ministers. There might be such challenges in the future, and it would be for future Governments to deal with them.

**Craig Hoy:** Are you open to a sunset clause being inserted into the bill?

**Ivan McKee:** I think that we can consider that. Clearly, if a future Government or Parliament decided that a sunset clause should be repealed,

it would have the ability to do that. At the moment, we have not put in such a clause, and I do not think that the legislation down south has a sunset clause, either.

**Hannah Taylor:** No, it does not.

**Ivan McKee:** There are and will be a lot of unknowns until we get through this phase of the assessment, including where we would even put that clause. We have put forward data today about 12 to 15-year outcomes, but it is hard to pin that down exactly at this stage.

**Craig Hoy:** Thank you.

**Michelle Thomson:** Good morning, minister. I have a few wee questions.

The Royal Incorporation of Architects in Scotland has commented on the use of what it called “quasi-hypothecation”. The RIAS subsequently wrote to the committee and, in explaining what it meant by that term, said that it thought that the legal basis was fairly “weak”. In other words, the RIAS would like to see it screwed down a lot more firmly that the intention—not just the policy intention, but the intention legally—is that the moneys raised from the levy must be spent on remediating cladding and not for any other purposes. Would you be willing to consider doing that?

**Ivan McKee:** That is about how Government budgets run. We have this conversation at other times about making sure that we use all the money that is available to meet the priorities of the people of Scotland. The idea that we would put that money in a biscuit tin and keep it there does not reflect the way that the finances work.

Looking at this at a macro level, it is understood that the total cost of the remediation will be far higher than the amount of money that is raised through the levy. By virtue of that fact alone, there is absolutely no doubt that everything that is raised through the levy will find its way towards remediation. Therefore, the mechanism by which you would do that hypothecation does not seem practical or necessary.

**Michelle Thomson:** Okay.

I appreciate that the active consideration has been given to developers, so that they get money in so that they can pay the tax. Build to rent is, obviously, a slightly different model. What consideration has been given to build to rent specifically? Obviously, it is also an important pathway to get us to the number of housing completions that we need.

**Ivan McKee:** Yes. If build to rent were excluded, we would be putting more load on to other parts of the sector. Build to rent is a rental revenue model, but within it the calculation of capital outlay for

construction costs is obviously significant, and that outlay is factored into the business case that the investors take forward. The levy would be another piece of that calculation that they would need to take on board. I think that the build-to-rent model would be well set up to deal with that.

**Michelle Thomson:** Somewhere in the multitude of evidence that we have received, the Scottish Government said, “We have to do this,” and claimed that no other solutions were offered. However, we had commentary from Homes for Scotland last week that it had not been asked to come up with any other solutions, so it felt slightly irked to hear that no other solutions were proffered when it had not been asked. I take it that it is too late in the day to ask for any other solutions and that you are completely wedded to this.

**Ivan McKee:** I am always interested in talking to people about solutions.

**Michelle Thomson:** I am sure that Homes for Scotland will be pleased to know that.

One of the things that we talked about—the convener touched on this, and we also had a discussion with Revenue Scotland this morning—was mitigations or the putting in place of good behaviour through compliance and special purpose vehicles, because most building firms will use them as a matter of course. During the discussion, it has become increasingly clear that we will not have the detail via secondary legislation until some way down the line. That reminds me of the committee’s old hobby-horse about using framework legislation to come up with some principles, but the devil of the detail not being around for quite some time after that, and potentially until after you have set a rate, as was being probed.

I can see that you are looking, but just to give a bit of clarity, there is a real possibility that a building firm can set up an SPV and then promptly fold it before it pays the tax. Yes, mitigations can be put in place, but the process is long, involved, complex and expensive for Revenue Scotland. I am just trying to get your feelings about that approach. Surely, in a perfect world, we would not do all of this in that way.

**Ivan McKee:** Clearly, there are tax collection measures at the Scottish Government and UK Government levels, and mitigations and processes are in place to prevent people running a business, making money, folding a business and running away with the money. You are not allowed to do that.

There will be issues to be worked through in that regard, but it is not as though we do not collect tax from companies at the UK level or Scottish level at the moment. There are mechanisms for doing that, and I am sure that Revenue Scotland has gone

through the technical parts of that with the committee. Do you want to say any more on that, Hannah?

**Hannah Taylor:** I confirm that we are working with Revenue Scotland and HMRC to understand the variety of structures in the property development sector and to ensure that tax is applied proportionately and fairly.

**Michelle Thomson:** We did have that conversation. Fionna Kell from Homes for Scotland made the point that the new build market size has been overstated by about £1.4 billion. She also commented that we are using estimates of estimates because we are following what is happening down south. That concern played into what was alluded to earlier, which is not just a lack of financial modelling but behavioural modelling, which I think the convener was alluding to when he mentioned the Laffer curve. Do you want to put some meat in the bones of that to start to model it properly? Surely you will have to do that to set the rate. I know what you have said about a date, but you will have to have some understanding of the modelling to set the rate.

**Ivan McKee:** There is robust data on the number of completions, so that is understood, and there is categorisation of that vis-à-vis the exemptions that we are talking about.

Officials can give more detail on the total market, but the difference was the period of time over which the average was taken. We have used a certain number of years to average the market size. Homes for Scotland is using a different number of years to average, and that is why we are seeing that difference. The effect of that is that we say that new build is 0.6 per cent of the total market size. If we used Homes for Scotland’s numbers, the average would be a slightly higher number, but it would still be in that range. It does not make a material difference to the size of the percentage of the total cost or the total size of the housing market.

**John Mason:** We have covered quite a lot of ground already, but the bill, as I understand it, makes it clear that the money is for building safety rather than for cladding. Is that description intentional?

**Ivan McKee:** It is the same as the bill down south—

**John Mason:** But it does not have to be.

**Ivan McKee:** It could be different, but that is what it is called.

**John Mason:** I am just highlighting that, because what it has flagged up is the point that has already been raised about the levy being kept going for the next housing or building crisis. Would



it reassure people if the bill said that it was just for cladding?

**Ivan McKee:** It might do, but, as I have said, we do not have a crystal ball that tells us what building safety issues might or might not arise in the future. It would be up to future Governments and future Parliaments to take a view on that.

Did you want to comment, Hannah?

**Hannah Taylor:** I was just going to say—never mind.

**John Mason:** There have been questions as to why we are going for square metres—that is, the footprint of the building, rather than its value. It seems to me that somebody with a more valuable house could afford to pay a bit more than somebody whose house might be the same size, but is not so expensive.

**Ivan McKee:** It comes back to ease of use, because these numbers are well known in the building process right from the planning stage. Architects and developers will know those numbers, so they can plan on that basis. The end price, on the other hand, might move around right up to the last minute, depending on a range of factors, so it would be harder for them to assess what the levy would be to allow them to factor it in. As a result, this seemed the most robust and straightforward methodology.

I do take your point about different types of houses and so on, but what we are doing through reliefs on the affordability element will go a long way towards addressing that.

**John Mason:** So, if one huge house is built, it will be subject to the levy. There is no bottom limit on the number of buildings that have to be built in a development.

**Ivan McKee:** No. Unlike the system in England, which is based on the size of the development, we in Scotland are giving each developer an allocation that they can build levy free. Therefore, it is quite possible that small house builders, say, might not build their quota, which would mean that all—or the majority—of what they built would be levy free.

**John Mason:** And exactly what the value or number will be is still to be decided.

**Ivan McKee:** Yes.

**John Mason:** In that case, if you are trying to raise £30 million, and there are fewer houses in Scotland, does that mean that the rate in Scotland might be quite a lot higher than the rate down south?

**Ivan McKee:** The numbers all start from the same place. Our £30 million comes from our pro rata share of the amount that the UK Government

is intending to raise from the levy, and everything is a twelfth of the size. In that regard, the numbers that will flow through will be the same.

Clearly, the shape of the housing market in Scotland will have different characteristics, but the housing market in England varies a lot, too, depending on where you are or what part you are in. The exemptions and reliefs in Scotland could be different at the margins from those in England—there could be some differences in that respect. However, there are 580-odd different rates in England, so there is quite a wide range, and the Scottish numbers will fall somewhere within that range.

**John Mason:** How many different rates might we have? Just one?

**Ivan McKee:** Maybe two, if we do something on brownfield sites.

**Hannah Taylor:** As the minister has said, the rate setting will happen in June 2026, and decisions have yet to be taken on the areas to which the rates will apply. It is currently unclear exactly how many rates will exist in Scotland, but I think that we are unlikely to hit 600.

**John Mason:** So it will be a lot simpler than it is in England.

**Ivan McKee:** Again, I will reflect on some of the points that you have made as we go through the rate-setting process and understand some of the variances.

**John Mason:** Okay. It was good to clarify that.

If, as has been claimed, a lot more of our housing is affordable housing, which will not be subject to the levy, that implies that the remaining housing will be proportionately less and therefore a higher rate will be needed. However, I take your point that there are so many rates in England that it will be difficult to make a comparison.

**Ivan McKee:** Yes, and I think that we might want to reflect on the record that, if there is significantly more affordable housing in Scotland, that is perhaps no bad thing.

**John Mason:** No, it is absolutely a good thing. Obviously, though, it will have a knock-on effect.

We have mentioned different places or types of houses that might be excluded, but why have hotels been excluded? People already pay so much in Edinburgh that another few pounds will not hurt them.

12:30

**Ivan McKee:** Obviously, we are talking about a different type of use, and hotels make up a very small percentage in the big scheme of things.

Perhaps officials can comment on the other criteria that might apply.

**Hannah Taylor:** Hotels are distinctly different from the long-term accommodation that the levy is looking to charge. There are instances where hotels are used as accommodation or as residences—for example, as emergency accommodation—but those are exceptional cases and are not considered the primary use for hotels. That is why they sit outside the scope of the bill at the moment. As the minister has said, very few new hotels are constructed in Scotland, so this will not have a material impact on the tax base.

**John Mason:** But there are quite a lot of hotels, and some are quite tall and will have some kind of cladding on them. Surely there is no difference between one person living in a flat for 365 days and 365 people living in a hotel room—it is exactly the same thing.

**Ivan McKee:** All of these are judgment calls, to be honest. We have gone through this and looked at the long list—

**John Mason:** Well, everybody else is trying to get you to have more exemptions—

**Ivan McKee:** And you are asking that I un-exempt some things. That is very admirable of you, Mr Mason.

**John Mason:** Thank you. I am trying to be helpful.

The Delegated Powers and Law Reform Committee raised a point about your getting the power to modify any enactments, including the bill. What is your response to those concerns?

**Hugh Angus:** This simply follows the pattern of the other recent tax legislation, where it might be necessary to amend other enactments. For instance, in connection with this bill, it might be necessary to amend technical provisions of the building standards regulations to ensure that the correct data is captured in applications for building completion certificates. It is simply following the pattern of other legislation.

**John Mason:** The committee and the Parliament are worried that, if the Government gets such a power, it will be too wide. Can it be narrowed down, or is it where you feel it needs to be?

**Hugh Angus:** This is where ministers feel that it needs to be.

**John Mason:** Okay. Thanks.

**The Convener:** I note that you did not mention campsites, John.

**John Mason:** I am not sure that tents should be included.

**Liz Smith:** I have just one question, minister. Notwithstanding the fact that nobody likes paying extra tax, whether it be a new tax or an old one, are you in any way concerned about the level of criticism about this tax by stakeholders?

**Ivan McKee:** We always listen closely to what the sector has to say. We understand the cumulative impact of charges—of course we do—and we recognise that the sector has a crucial role to play in helping us resolve the housing challenges that we face. We will continue to work with the sector on that. Obviously, in a perfect world, we would not want to be doing this, but we need to.

**Liz Smith:** I think that this is a very important issue for the committee. There have been substantial concerns about potential—perhaps unintended—consequences, and it would be good to have your assurance on the record that the Scottish Government is listening to those concerns and is prepared to make some amendments.

**Ivan McKee:** I am absolutely listening, and I am very keen to engage further. As I have said several times, the fact that this is being done in the rest of the UK is an important factor in our considerations. However, we continue to engage extensively with the sector on the matter.

**Liz Smith:** Thank you.

**The Convener:** That concludes the committee's questions. Are there any further points that you want to make, minister, before we wind up?

**Ivan McKee:** No, except to say thank you very much.

**The Convener:** I thank you and your team of officials for your attendance this morning. That was our last evidence-taking session on the Building Safety Levy (Scotland) Bill, and the committee will report on its findings next month.

As that was the final item on our agenda, I thank everyone for their participation, and I close the meeting.

*Meeting closed at 12:34.*

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