

# Corporate Policy & Strategy Committee

10.00am, Tuesday, 2 October 2018

## Edinburgh Transient Visitor Levy

Item number	7.1
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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This paper relates to the Council commitment to progress the Edinburgh Transient Visitor Levy (TVL). This also forms a significant part of the national local government agenda around seeking additional powers for local government on local taxation, which would help create a more effective local democracy that is more accountable to the people and wider stakeholders within each local authority.

This paper specifically highlights some of the findings from initial engagement sessions with Edinburgh's stakeholders and summarises key information from the TVL research completed to date with residents and tourists.

The paper also lays out options for an Edinburgh TVL Scheme seeking the council agreement to progress with public consultation on this basis.

## Edinburgh Transient Visitor Levy

### 1. Recommendations

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- 1.1 Agree to progress a formal public consultation on options for an Edinburgh TVL as laid out at a high level within the report
- 1.2 Agree for the convener to write to Scottish Government Ministers sharing the progress of our work on the Transient Visitor Levy and to seek a meeting

### 2. Background

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- 2.1 Alongside this administration's commitment, the City of Edinburgh Council has a long-held position that a Transient Visitor Levy is in the best interests of the city. The Council considered a research paper on TVL on 31 May 2018. The Scottish Government have been clear that they are open to hearing from Edinburgh City on this but want the Council to engage with the tourist and hotel industries on any proposal.
- 2.2 The Council completed an informal period of engagement activities throughout the summer. This includes raising the question of a TVL with key stakeholders, ongoing engagement with elected members through a series of workshops, and a series of roundtable discussions with stakeholders and key partners across industry, culture and tourism. The Council has also commissioned a specific piece of research into the views of residents and visitors on the principle of a TVL run in partnership with Marketing Edinburgh.
- 2.3 COSLA also published a paper in June that called on the Scottish Government to grant Councils more financial power, starting with the discretion to introduce a Transient Visitor Tax. The paper affirms the reasons for introducing a transient visitor tax:
  - 2.3.1 The cost of maintaining the local environment and public services, which draws tourists, falls heavily on the public purse. Sustaining this is at significant risk without new ways to invest.
  - 2.3.2 Whilst recognising the cultural and economic benefits of tourism, the cost of tourism is born by the local citizen. There is a case for this to be shared more widely.

- 2.4 This Council, Highland Council, Aberdeen Council and COSLA gave evidence on TVL to the Scottish Parliament on 13 September. The written evidence submitted is available from the [Culture, Tourism, Europe and External Affairs Committee](#).

### 3. Main report

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- 3.1 A comprehensive desk-based research into transient visitor levy was conducted in early 2018. This looked at the Edinburgh accommodation sector, the policy context, and examples of a similar TVL in other cities. The paper was discussed at full Council on 31 May 2018.

#### **The rationale for the Edinburgh TVL**

- 3.2 Building on the position detailed in the June Council report, the underlying rationale for the TVL is that tourists who temporarily pay to stay in the city and use the public space and services should contribute to the city's investment in and management of the consequences of a successful tourism economy. More specifically, in this context the purpose of an Edinburgh TVL would be to:
- 3.2.1 Ensure that Edinburgh's status as one of the world's great cities in terms of culture and heritage is sustainable;
  - 3.2.2 Enable future investment in culture, heritage, arts and sport activities which benefit the city and enhance tourism.
  - 3.2.3 Ensure future investment in promotion of Edinburgh as one of the world's best cities to visit all year round.
  - 3.2.4 Ensure that tourists and residents equitably invest in public services that ensure visiting this city is an enjoyable and safe experience and;
  - 3.2.5 Support the Council to manage the impact of a successful tourism industry

#### **Stakeholder engagement**

- 3.3 The Leader, Depute Leader, Chief Executive and officers have been informally engaging with key stakeholders, including 1:1 engagement with over 25 of our key industry partners and stakeholders, four roundtable and workshop events with partners from across industry, culture and tourism and presentations at key organisations such as Local Government groups, Festival Edinburgh and the Edinburgh Tourism Action Group. This engagement continued with a round table with industry partners on 13 September ahead of more formal public engagement.
- 3.4 We heard through our engagement that a set of key principles are important to securing collective support for an Edinburgh scheme, its scope, detail, application and use. We heard from stakeholders that an Edinburgh scheme would need to be:

### **Fair to all – industry, residents and tourists**

- 3.5 Issues raised around fairness relate to many aspects of the scheme including who the scheme would apply to, how much would be charged, how it would be charged, over what period of the year and whether there would be any exemptions. The principle is important but must be understood to apply to all and not one sector or stakeholder in this debate.
- 3.6 We specifically heard from stakeholders that it was important to ensure that no part of the accommodation industry or tourists choosing accommodation were disproportionately advantaged or disadvantaged by being exempted from a TVL. The focus of this principle is often around ensuring that the short term lets economy is fairly and equally contributing to the city in the same way as other types of tourists and indeed local taxpayers. The issue of vulnerable residential short-term accommodation users has also been raised within this context.
- 3.7 In terms of fairness, consideration also needs to be given to whether a local scheme should be sensitive to the size of provider and/or price ranges that exist across the accommodation sector. The premise being that a £ per night fee would disproportionately impact upon smaller providers or budget accommodation/tourists than it would other parts of the industry or our more luxury focused tourists. These issues all come into play when deciding whether, or not, a £ per room per night charge is fairer than a percentage charge – similar to the application of VAT. It also raises the question of price floors or other exemptions.

### **Simple to understand and run**

- 3.8 Ultimately, how 'fair to all' a local scheme is - including whether and how many exemptions are made to it - impacts on how simple it is to understand and how easy and efficient it is to run. These are choices that need to be made in consultation with residents and other key partners. The more of exemptions you accommodate within a scheme the more complex it is for tourists to understand and for businesses and the council to run.

### **Administratively efficient and difficult to avoid**

- 3.9 As part of our informal consultation, stakeholders shared the sentiment that if the city were to go to the effort to implement this charge, then it must be 'worth it'. By this, partners meant both that the charge should be large enough to merit the administrative costs involved and large enough to raise enough money to make a meaningful investment in the city.
- 3.10 Clearly, it is in everyone's interest to ensure that the scheme costs as little as possible to run and that it is as light touch as possible while ensuring compliance and minimising the potential for any avoidance of payment. The council has committed to design any administration mechanism in partnership with the business community. Indeed, given that several of our accommodation partners in the city are international companies operating TVLs in other parts of Europe, there is much to learn in terms of best practice and officers are gathering examples.

3.11 The council hosted an industry round table specifically to consider the administrative mechanism on 13 September. This conversation covered the detail design of a potential administrative mechanism addressing issues such as registration, collation mechanism, collation timescales, compliance mechanisms and the associated costs. Clearly, a new TVL scheme will be more challenging for smaller providers but we will continue to co-produce any proposals to minimise bureaucracy and expense.

#### **Raise *additional* income, transparently invested**

3.12 The introduction of either a small charge of 2% of the room cost or £2 per room per night could generate over £11 million per annum to invest within the City. This estimate is based on hotels, services and self-catering apartments, short term lets (from Airbnb) and guesthouses and B&B's within the City of Edinburgh geography. It does not show the expected revenue to be raised from Edinburgh hostels, or campsites.

3.13 Some of the learning that can be taken from other parts of Europe is around how best to invest the resources raised. For example, in Barcelona funds are allocated to the local authority to resize general services to meet to demand from tourist visits. In Antwerp, funds are allocated for clean streets, enhanced information services, and the maintenance of museums.

3.14 What is clear is that transparently developing proposals for how this resource is invested in partnership and collaboration with all stakeholders is an important component of gaining trust and support for the TVL. The specifics of investment of income raised in Edinburgh would be a key part of the public consultation and build on the purpose of the scheme outlined in paragraph 3.2. There is no suggestion from the Council that the TVL should compensate for or alleviate the responsibility to adequately fund local government to meet its wider statutory duties.

#### **Have transparent governance and accountability**

3.15 Transparent governance and clear accountability are closely tied to decisions around resource and investment detailed above, but the importance given to this principle also reflects the need to evidence that any TVL is delivering benefit to the City of Edinburgh. Partners rightly want to clearly see what is being raised, what the priorities for investment are and whether that investment has improved outcomes for all. Decisions relating to the expenditure of this resource would need to be democratically accountable and taken by the Council. However, the Council is open to other ways of establishing an inclusive and collaborative mechanism for determining spending priorities and reviewing the effectiveness of investments made.

#### **Developed in collaboration**

3.16 The Council has embarked on a series of informal engagement sessions, round tables and workshops with key stakeholders and partners to ensure that when the council publishes draft proposals for formal public consultation, it is done having listened to the concerns and inputs shared. In this regard, the Council is committed

to doing with and not to industry, culture, tourism partners and residents. The commitment to co-design the administration mechanism of the scheme is an illustration of this.

### **Visitor and Resident Research Findings**

- 3.17 The survey was undertaken by independent market research agency Progressive Partnership in July and August 2018. A consultation with visitors will take place in October using the same questions to take account of tourist views outwith the main tourist season.
- 3.18 The results of the survey are based on 519 face-to-face interviews with Edinburgh residents (evenly split between those living in and around the city centre, and those living in other parts of the city) and 561 face-to-face interviews with paying overnight visitors (10% from Scotland, 35% from the rest of the UK, 56% overseas – this is broadly reflective of actual visitor numbers).
- 3.19 It is worth highlighting that the independent research confirms that 92% of tourists said that they would have visited Edinburgh even if a Tourist Levy of £1 per room, per night were in operation. Importantly, with this scale of levy, only 2% of tourists said that they would have chosen another destination. This figure increased to 6% with a charge of £4 per room per night.
- 3.20 58% of Edinburgh residents who were surveyed support a TVL and of those who don't it is because of a concern for the impact on tourism. Evidence within the survey itself shows that those concerns are unfounded and with these fears addressed, you would expect to see this figure grow even higher.
- 3.21 Both visitors and residents preferred a charge levied on accommodation (59%) over a charge on other services such as bars or restaurants.
- 3.22 Visitors and residents were divided on the preferred option for a TVL. The top three preferred options from visitors and residents were a flat fee per room per night at 36% and a percentage added to bill at 22%, a flat fee per person per night at 14%.
- 3.23 The main reason respondents preferred the flat fee per room per night was that it was straightforward and easy to understand. Those who preferred a percentage did so because it was 'straightforward and easy to understand' (45%) and 'the fairest option for everyone' (43%).
- 3.24 If a levy was introduced, residents felt an average of a £5 charge on a £100 room fee per night would be reasonable, while visitors averaged £3.30 per £100 per night

### **Proposal for an Edinburgh Scheme**

- 3.25 Based on the research and feedback we have gathered, it is proposed that the Council now consults publicly on a draft scheme. There is much consensus on many aspects of a draft scheme but there are some key tensions and therefore choices to make which should be openly explored as part of the consultation.
- 3.26 The major area of debate so far has been around whether the scheme should be a flat fee - £ per room- or whether it should be a percentage on room price. From a

policy perspective, a percentage addresses a number of concerns around fairness and proportionality and mirrors arrangements for VAT in terms of overall calculation and collection. However, accommodation providers felt this was more complex to administer and that even for small businesses, a flat fee would be preferential.

- 3.27 Bearing in mind the points raised earlier in this report, ensuring a flat fee is also fair to all may require a floor; different price brackets for the levy; other types of exemptions. Given that this is not clear cut and that residents also had mixed views on it, this is likely to be a significant point in the consultation.
- 3.28 In terms of rate, while we believe that Edinburgh has a strong offer and would not experience any negative impact on demand through a TVL, we have also listened to the fact that industry and other partners would support and feel more confident of a 'small' charge. At the same time, we have listened to the concerns that a TVL must raise enough that it is able to make meaningful investments and be 'worth it'. As such, the draft proposal to be consulted on would propose a TVL of either 2% or £2 per room per night.
- 3.29 Beyond this, and having listened carefully to the comments made by stakeholders, we would be proposing that the levy is charged on all accommodation types; across the entire Edinburgh local authority boundary; that will apply all year round and be capped in terms of a maximum seven consecutive nights' accommodation.
- 3.30 The consultation would gather views on every aspect of this proposal. It would also explore options for collaboration and transparency over priorities for investment and how a sense of shared accountability for the outcomes achieved by this investment can be established. The purpose of the scheme would shape this discussion in the consultation (Paragraph 3.2)
- 3.31 While our recent workshop highlighted a number of issues to consider in designing the administration of the scheme, we would also seek input and feedback on how all those who may be affected feel that this could be kept simple. There may also be an opportunity to explore and support digital solutions which might have wider benefit to industry.

#### **4. Measures of success**

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- 4.1 The measures of success in terms of the work specified in this report relate to securing the right to introduce a transient visitor levy.

#### **5. Financial impact**

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- 5.1 There was no immediate financial impact other than officers time.

#### **6. Risk, policy, compliance and governance impact**

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- 6.1 The recommendation in this report is consistent with existing policies and aspirations of the Council.

#### **7. Equalities impact**

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- 7.1 There are no immediate equalities impact from the recommendations related to this paper. An Integrated Impact Assessment will be undertaken for the development of the Transient Visitor Levy when potential options/policies have been formed.

## 8. Sustainability impact

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- 8.1 The proposals in this report will have no immediate sustainability impact but should the Edinburgh Transient Visitor Levy be introduced there would be some sustainability outcomes related to the decision on the additional income choices, but these are beyond the scope of this paper and are conditional on the TVL being implement in Edinburgh.

## 9. Consultation and engagement

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- 9.1 Further consultation with other partners and users will be undertaken where appropriate.

## 10. Background reading/external references

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- 10.1 [Edinburgh Transient Visitor Levy](#), City of Edinburgh Council meeting, 31 May 2018
- 10.2 [Transient Visitor Tax](#), COSLA, 27 June 2018
- 10.3 [City of Edinburgh Council TVL Evidence Submission](#). Scottish Parliament Tourism, Culture, Europe and External Affairs Committee, 13 September 2018

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## 11. Appendices

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Appendix 1: TVL design variables



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Spec	Consultation options	Engagement and research findings
<b>Charge type</b>	% of room cost, Or £ per room per night	<ul style="list-style-type: none"> <li>• % Is proportionate to cost of room and deemed 'fairer', may be better at offsetting any price elasticity in budget providers but may be harder to administer. A % could also future proof the scheme against inflation.</li> <li>• £ is simpler to understand and run but may require exemptions to ensure a 'fair' scheme. This would add to complexity and administrative burden</li> </ul>
<b>Size of charge</b>	2% or £2	<ul style="list-style-type: none"> <li>• Size of the charge must be 'worth it.'</li> <li>• Large enough to merit the administrative cost and challenge of implementation.</li> <li>• Large enough to raise enough money to make a meaningful investment in the city.</li> <li>• Not too high to seem excessive or to seemingly match the highest charges in other European cities.</li> </ul>
<b>Coverage</b>	Hotels, Apartments, Airbnb, Guesthouses B&Bs, Hostels, campsites Across the whole city	<ul style="list-style-type: none"> <li>• Accommodation and not wider retail is the focus. Including retail would be unfair to day visitors who would pay multiple fees and is also administratively complex. No other operating TVL scheme goes beyond accommodation.</li> <li>• Important to ensure that no part of the accommodation industry or tourists choosing accommodation were disproportionately advantaged or disadvantaged by being exempted from a TVL.</li> </ul>
<b>Charge period over the year and duration</b>	Full year Capped at 7 nights	<ul style="list-style-type: none"> <li>• A full year generates higher income levels and ensures consistency and simplicity</li> <li>• Capping duration of stay will directly benefit those working in the city for longer periods or for seasonal working e.g. people on business or festival entertainers/performers staying in paid Edinburgh accommodation.</li> <li>• Average duration in the continental European cities is 8.4 nights. 7 nights Lisbon and Barcelona, Berlin 22 nights, and Rome and Florence 10 nights.</li> </ul>