



**The City of Edinburgh Council**

SCDI consultation response

**The City of Edinburgh Council's proposal for a  
Transient Visitor Levy**

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

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# **A Consultation on the City of Edinburgh Council's proposal for a Transient Visitor Levy or Tourist Tax within the city**

## ***Introduction***

The tourism industry is one of the Scottish economy's great strengths. The Scottish Government's Economic Strategy (2015) identifies Sustainable Tourism – which already represents 5% of Scottish GDP and employs 206,000 people across the country, or 8% of the entire workforce – as a key Growth Sector. There are over 3,000 accommodation providers within the sector across Scotland with 56,000 employees. Edinburgh is a jewel in Scottish tourism's crown. In 2017 alone Edinburgh and the Lothians welcomed nearly 5 million overnight visitors who were responsible for around £1.8 billion of expenditure. The industry employs 34,000 people in the capital. Tourism not only makes Scotland more prosperous, but it also makes our society and our economy more open, diverse, inclusive and globally-connected.

A growing tourist footprint combined with a difficult fiscal environment for local government has fuelled a growing debate over whether the Scottish Parliament should legislate to enable local authorities to introduce a Transient Visitor Levy, otherwise known as a tourist tax or occupancy charge, in response. The proposal has divided public and business opinion. Some businesses have raised concerns that any new levy, while potentially providing additional funds for investment in the city to support the tourism industry and its future growth, could damage Edinburgh's global competitiveness in attracting visitors, artists, investors, businesses and conferences. The precise impact of such a levy on Edinburgh has not yet been rigorously tested. SCDI has previously raised concerns over the economic impact and unintended consequences of introducing a tourist tax.

Nonetheless, there is evidence that high levels of tourism – particularly when concentrated within small urban areas or interacting with fragile natural environments – can create negative externalities (such as congestion, pollution and higher housing costs), escalate pressure on public services and increase demand for public goods, the cost of which are borne by local residents and local taxpayers rather than by visiting tourists. As Scotland's most popular tourist destination with a historic and spatially-limited city centre, Edinburgh faces these challenges particularly acutely, although it also experiences positive externalities (such as increased global connectivity, better amenities and a thriving, diverse cultural scene). These challenges and benefits can increase the need for investment in infrastructure and public services and can damage the capacity of tourism-related businesses to survive, thrive and expand.

Two-thirds of EU member states levy an occupancy tax focused on tourism accommodation providers, and all but one does so on a local- or city-level, rather than nationally. In many cities, such a charge works well, with revenue investment in promotional activity, local infrastructure or local services. However, these jurisdictions also tend to apply lower levels of Value Added Tax (VAT) to tourism-related products and services with lower prices for consumers. Indeed, the rationale

articulated by the Scottish Government to support abolish the Air Departure Tax appears to be inconsistent with the rationale for a Transient Visitor Levy.

### **Summary**

SCDI does not propose the introduction of a Transient Visitor Levy. However, in the spirit of constructive engagement, SCDI recommends that should any decision be taken to introduce a Transient Visitor Levy in Edinburgh it should be:

- a. Subject to extensive consultation with citizens, businesses and stakeholders, particularly with the tourism industry and accommodation providers;
- b. Based on clear evidence and data, with its long-term economic impact and potential unintended consequences rigorously assessed;
- c. Set at a level which is not prohibitive and maintains the competitiveness of Edinburgh as a destination for visitors, artists, investors, businesses and conferences;
- d. Administered by a flexible system of collection designed in partnership with the tourism industry and accommodation providers of all kinds and sizes; and
- e. Deployed to support inclusive economic growth, with revenue ring-fenced for investment in managing the impact of high levels of tourism on the city and supporting Edinburgh's tourism industry and its future growth.

#### **1. If a transient visitor levy were to be introduced in Edinburgh, which charging mechanism would you prefer?**

- ***Prefer percentage of total room bill***
- ***Prefer a flat rate per room per night YES***
- ***No preference between a percentage or flat rate***
- ***Unsure***

#### **What are the main reasons for your choice?**

The charging mechanism for existing tourist taxes in Europe vary from jurisdiction to jurisdiction. Lisbon, for example, applies a fixed charge per person per night, while Barcelona, Paris, Rome and Venice vary the level of the charge according to the cost and quality rating of the accommodation.

A charging mechanism for any new levy based on a flat rate per room per night would have the advantage of both affordability for consumers and simplicity for collectors. It is clear from the projections of the Scottish Government, the Scottish Tourism Alliance and others that any new levy calculated as a percentage of the total room bill would result in significantly higher, and potentially prohibitive, costs for consumers compared to a flat rate per room per night. Moreover, a charging mechanism based on the cost of accommodation would create additional systemic complexity. A charging mechanism based on the quality rating of the accommodation would be similarly problematic, because Visit Scotland's rating system is voluntary and therefore does not cover all accommodation providers in Scotland.

## **2. What level should the charge be?**

- **£2/2% is too low, should be higher**
- **£2/2% is about right YES**
- **£2/2% is too high, should be lower**
- **Unsure**

The introduction of any new levy should be carefully considered and based on clear evidence. The level of the charge of any new levy should only be set after extensive consultation with the tourism industry and accommodation providers of all kinds and sizes. The charge should not be prohibitive and should maintain the competitiveness of Edinburgh as a destination for visitors, artists, investors, businesses and conferences against UK, European and global competitor cities.

The cumulative fiscal burden placed on accommodation providers and consumers should be accounted for in the evidence base for any new levy. Although nowhere in the UK currently applies a Transient Visitor Levy while many other jurisdictions do, these countries generally have lower taxes on tourism-related businesses. For instance, the level of Value Added Tax (VAT) which is applied to accommodation in the UK is significantly higher than most other countries in the European Union at 20%. Scotland's European competitors apply reduced rates of VAT on tourism-related expenditure, including Belgium (6%), France (10%), Germany (7%), Hungary (18%), Ireland (9%), Italy (10%) and the Netherlands (6%). Only Denmark (25%) applies a rate above that of the UK.

Given this context, a flat rate of £2 per room per night would be the most appropriate approach to minimise any impact on consumer behaviour were a Transient Visitor Levy to be introduced in Edinburgh. A charge set at this level would place Edinburgh's levy significantly below several of its competitor cities, such as Berlin and Rome, while also raising meaningful revenue for ring-fenced, targeted investment to support the city's tourism industry and its future growth.

## **3. If a flat rate per room per night were introduced, should more expensive/luxury accommodation have a higher flat rate?**

- **No – there should be one flat rate for all accommodation prices YES**
- **Yes – there should be a higher flat rate for more expensive / luxury accommodation**
- **Unsure**

Whether to introduce a higher flat rate for expensive/luxury accommodation should be carefully considered and based on clear evidence. In some jurisdictions with a tourist tax, the levy is higher for expensive/luxury accommodation, although this is far from the case in all cities. A system with a universal level of charge would have the advantage of simplicity and less bureaucracy. Furthermore, increasing numbers of visitors with significant disposable income are coming to Scotland from China, India and other large developing economies with burgeoning middle classes. Visitor spend and economic benefit from overnight tourists from such countries is higher on average. Maintaining and expanding this market should be a priority for the Scottish tourism industry.

**4. If a flat rate were introduced, should less expensive/budget accommodation be exempt? For example, rooms let for less than £50 per night.**

- **No – there should be a charge for all accommodation prices YES**
- **Yes – budget accommodation should be exempt**
- **Unsure**

A system with a universal level of charge would have the advantage of simplicity and less bureaucracy, while also raising meaningful revenue for ring-fenced, targeted investment to support the city's tourism industry and its future growth.

**5. What, if any, further variations to the level of the charge should apply?**

SCDI does not propose any further variations to the level of the charge of any new levy.

**6. If a transient visitor levy were introduced in Edinburgh, are there any types of paid accommodation you feel should be exempted from this charge? (Please highlight all that should NOT pay this charge)**

- **Hotels**
- **Self-serviced apartments**
- **Student accommodation (let out during festival)**
- **Shared accommodation and short-term lets, such as AirBnB**
- **B&Bs and guesthouses**
- **Hostels YES**
- **Camping sites or caravans YES**
- **Other (please specify)**
- **Unsure**

Hostels and camping sites or caravans should be considered for exemption from the charge in recognition of their status as low-budget and out-of-town accommodation providers with reduced environmental impact and fewer negative externalities on high-tourist-density urban areas.

**7. If you think any accommodation types should be exempt, please tell us why.**

SCDI does not propose any further exemptions based on accommodation type or cost to any new levy.

**8. If a transient visitor levy were introduced in Edinburgh, do you think it should apply all year round?**

- **Yes YES**
- **No**
- **Unsure**

Any new levy should apply all year round in recognition of Edinburgh's status as an all year-round tourist destination with relatively high numbers of visitors during all four seasons. Although experiencing very high tourist numbers during the peak Festivals period in August, it is clear that tourism has a year-round impact on the city's infrastructure, public services and public goods.

**9. If no, when should the charge be applied?**

- **TVL should apply only during peak season (April-September)**
- **TVL should apply only during off-season (October-March)**
- **Unsure**
- **Other (please specify)**

N/A.

**10. Should the charge be capped? If yes, after how many nights should the charge be capped?**

It is SCDI's judgement that the charge should be capped after seven nights to minimise any potential impact on consumer behaviour and incentivise longer-stay, higher-spend visits.

**11. What further exemptions, if any, should apply to the time or duration of the charge and why?**

It would be reasonable to apply an exemption to any new levy for children below the age of 16 in any party in relevant accommodation. Exemptions for children are common in other jurisdictions where similar levies are already in place.

**12. What concerns, if any, do you have about the implementation and administration of a transient visitor levy in Edinburgh?**

Some businesses have raised concerns that any new levy, while potentially raising additional funds for investment in the city to support the tourism industry and its future growth, could damage Edinburgh's global competitiveness as a destination for visitors, artists, investors, businesses and conferences. The rationale articulated by the Scottish Government to support the abolition of the Air Departure Tax – that overwhelmingly reducing or eliminating entirely a taxation burden on consumers will increase competitiveness – appears to be inconsistent with the rationale for a Transient Visitor Levy. Concerns about any new levy is particularly strong among accommodation providers, although there is some support for a new levy from businesses throughout the wider economy.

There is a risk that tourists who would otherwise have visited Edinburgh and contributed to the growth of its economy may visit Prague or Berlin instead – or that conferences which would otherwise be hosted by in Scotland's capital may be lost to Glasgow or Aberdeen. If the Scottish Parliament legislates to enable local government to introduce such a levy, local authorities will have to balance their own competitiveness against meeting local needs and economic circumstances.

Any decision, therefore, to introduce a Transient Visitor Levy in Edinburgh must be subject to extensive consultation with citizens, businesses and stakeholders, particularly with the tourism industry and accommodation providers; based on clear evidence and data; and set at a level which is not prohibitive. It is critical that small accommodation providers, such as B&Bs, are consulted closely on the design of any new system for the collection of revenue raised by any new levy. Reasonable flexibility in the system may be required to reflect their limited capacity.

**13. Which of the following would you like to see in respect of the administration of the scheme? (Please tick all that apply)**

- ***A percentage of the fee retained by accommodation providers to offset administration costs***
- ***An industry led project team to design the administration mechanisms***  
YES
- ***A monthly collection mechanism*** YES
- ***An end of year collection mechanism***
- ***A multi-channel collection process*** YES

Any new levy should be administered by a flexible system of collection designed in partnership with the tourism industry and accommodation providers of all kinds and sizes. In partnership with businesses and stakeholders, the revenue which is raised should be ring-fenced for investment in managing the impact of high levels of tourism on the city and supporting Edinburgh's tourism industry and its future growth.

**14. The City of Edinburgh Council has set out its rationale for a TVL:**

- ***Ensure Edinburgh's status as one of the world's great cities in terms of culture and heritage is sustainable***
- ***Enable future investment in culture, heritage, arts and sport which benefit the city and enhance tourism***
- ***Ensure sustainable investment in promotion of Edinburgh as one of the world's best cities to visits all year-round***
- ***Ensure that tourists and residents equitably invest in public services that ensure visiting this city is an enjoyable and safe experience***
- ***Support the Council to manage the impact of successful tourism industry***

***Do you support these priorities? Do you have any views about how or where the revenue raised should be spent?***

The decision to introduce any new levy should be based on clear evidence that its implementation and design will deliver these priorities alongside increasing inclusive economic growth in the city. The revenue raised by any new levy should be re-invested into managing, supporting and increasing tourism in the city. Investment should be targeted at infrastructure and public services improvements which businesses and stakeholders believe will improve the visitor experience of Edinburgh and increase its attractiveness as a destination. Decisions about how or where the revenue raised should be spent should be made in partnership with the tourism

industry and accommodation providers. A Transient Visitor Levy Forum established by the City of Edinburgh Council could be a useful venue for such consultation on a regular basis.

The revenue raised by any new levy could be deployed to support promotional tourism activity to market Edinburgh to new markets, as in Croatia and Barcelona; to invest in improved digital connectivity and public transport projects relied upon by tourists and tourism-related businesses; or to support improved public services in key tourist zones, such as refuse collection or public conveniences.

The case for any new levy will depend on whether it can be leveraged to significantly enhance the capacity of the city to manage existing visitor numbers and to increase future visitor numbers to deliver increased growth, employment and prosperity. Any new levy should not be viewed as a means of plugging any funding gaps in other areas of the local authority's portfolio or as a means of raising further revenue for discretionary non-related spending.

***15. Should Edinburgh establish a TVL Forum of stakeholders? If so, what should its role be and who should be involved?***

If the Scottish Parliament legislates to enable local authorities to introduce a Transient Visitor Levy, the establishment of a Transient Visitor Levy Forum of stakeholders would be a welcome step by the City of Edinburgh Council. The Forum could act as a steering group for the implementation of any new levy; inform the design of the new system of administration and collection of any new levy; inform and advise on the spending of the revenue raised; and review any new levy over the lifetime of the policy. The Forum must be representative of Edinburgh's diverse citizen and business population, particularly accommodation providers of all kinds and sizes and the wider tourism industry.