

<b>Agenda Item</b>	<b>16</b>
<b>Report No</b>	HC/51/18

## HIGHLAND COUNCIL

**Committee:** The Highland Council

**Date:** 13 December 2018

**Report Title:** Options for funding future Highland tourism development: a Transient Visitor Levy

**Report By:** Director of Development and Infrastructure

### 1. Purpose/Executive Summary

- 1.1 This Report summarises for Members some of the aspects that would require consideration in relation to the introduction of a Transient Visitor Levy – a possible approach to funding tourism investment which Members have indicated they wish to explore further. The report suggests that any proposals should be fully informed by undertaking public consultation and concludes by outlining how such a consultation exercise might take place.

### 2. Recommendations

- 2.1 Members are asked to:
- i. note the range of factors that would need consideration in deciding whether and how to implement a Transient Visitor Levy; and
  - ii. approve the proposal that the Council should carry out a public consultation on the implementation of a Transient Visitor Levy as described in section 7 of the report.

### **3. Background**

- 3.1 The last few years have seen increasing numbers of visitors coming to Highland, cementing tourism's position as the area's most important industry. Provisional 2017 figures show almost 6.5 million visitors came to Highland, spending a total of almost 12 million nights in the area. £1 billion of direct expenditure by these visitors created an overall economic impact of £1.2 billion and supported 25,000 jobs in the area.
- 3.2 While this increase is welcome, these increasing numbers of visitors have also put additional pressures on many destinations and on public infrastructure. In a commercial / business scenario, increased levels of trade would justify investment by the business, with this recouped from the increased income derived. Increasing visitor numbers do bring increased income to the public purse through business taxes but the current system sees this collected centrally rather than locally. Ultimately this means that, while there is a recognised need for investment in public infrastructure, much of which is owned and managed by the Council, it is not the Council that receives this income to allow this to happen.
- 3.3 The current mechanism for the distribution of funding to local authorities does not specifically take into account any tourism related needs, leading to a situation where the Council has to balance demand for tourism related investment against the demand for other Council services. This in turn has led to a growing interest in exploring ways in which the Council can raise income directly from tourism for reinvestment in tourism infrastructure or other forms of tourism development.
- 3.4 Initial discussions at the Council's Tourism Working Group have indicated that there is little appetite for any further taxation of businesses and this is not being proposed in this report. Instead, the report proposes that the Council support the principle of raising income from visitors, potentially through a Transient Visitor Levy, as a way of funding future Highland tourism development.
- 3.5 In parallel with this work, it should also be recognised that the Council is also undertaking work in regard to the development of a Voluntary visitor levy.

### **4. The current situation in Scotland**

- 4.1 Highland is not alone in experiencing visitor pressures and seeking ways of raising income to try and address these. This has led to a number of UK destinations considering some form of visitor levy – most notably Edinburgh and Aberdeen. However, although the ability to raise a levy from visitors already exists in other countries, current legislation does not give local authorities the power to raise local taxes so primary or secondary legislation would be required before this could occur in Scotland.
- 4.2 To date, the official position of the Scottish Government has been that they would not seek to introduce the legislation allowing the collection of such a levy unless there was demand for it from the industry. How such demand would be demonstrated has not been defined but, more recently the Scottish Government has indicated a willingness to discuss this further. Some evidence gathering activity has recently been undertaken by the Scottish Parliament's Culture, Tourism, Europe and External Relations Committee, including a session with selected local authorities at which the Council Convener gave evidence.
- 4.3 More recently, the First Minister announced at the Scottish Tourism Alliance

Conference on 1<sup>st</sup> October 2018 that the Scottish Government was committed to facilitating a national discussion on “the issues around Tourism Taxes”. As part of this consultation, the Scottish Government has recently issued a discussion document (<https://www.gov.scot/publications/transient-visitor-taxes-scotland-supporting-national-discussion> ) and announced that it will hold a series of events around the country. These events are intended to explore the potential impacts, both positive and negative, that the introduction of such a tax may have. An event has now been scheduled for Inverness, chaired by Kate Forbes, Minister for Public Finance, on 14<sup>th</sup> January 2019.

- 4.4 In parallel with national discussion on tourism taxes, the Local Governance Review, which is being taken forward jointly by the Scottish Government and COSLA, is also seeking views on whether local authorities should be given greater fiscal autonomy as part of a wider review of local democratic powers and accountability. A common theme that has begun to emerge across Scotland in the course of this is support for Councils having the option to choose to implement a tourism levy if they wish and that councils should also have flexibility over how and where to do so.
- 4.5 While the Scottish Government’s “national discussion” is welcomed and will see views from Highland contributed there is still a risk that Highland specific circumstances are either not considered or that they may be overwhelmed by responses from elsewhere in Scotland that have different circumstances. In particular there is a risk that the views of urban areas and / or larger businesses which dominate in some parts of the country could outweigh responses from smaller businesses or rural areas which can be of more importance to Highland. It is therefore recommended that the Council undertakes its own consultation in Highland.
- 4.6 The Council will be submitting a response to the Local Governance Review at the end of January 2019 and this will highlight that there is a separate consultation underway in Highland on the issue of a tourism levy and will endeavour reflect any themes that have begun to emerge by then. In addition it is proposed that the Council will participate in the Scottish Government’s events and submit a written response in relation to the national discussion on tourism tax. It is anticipated that a proposed response will be considered by the Environment, Development and Infrastructure Committee at their meeting on 31<sup>st</sup> January 2019.

## **5. Elements that will require further consideration in relation to a tourism levy**

- 5.1 As part of the Council’s consideration of potential schemes to raise income for tourism investment, the Council will need to consider a range of factors. Initially consideration will need to be given a number of factors that relate to the principle of levying charges. Subsequently there would also need to be consideration of some of the practical details related to the collection and use of the levy.

## **6. Potential income from a Transient Visitor Levy**

- 6.1 Considering that there are so many variables as to who might pay a levy and how much a levy might be, it is impossible to accurately predict how much income a scheme might raise. However, based on the full year figures for 2017 (which was considered an exceptionally good year for tourism in Highland) the area saw around 11.9 million overnights spent in paid for accommodation. Bearing in mind that this was potentially a peak year and that some people may not be levied (e.g. children, those staying more than a set number of nights or those visiting at certain times of

year; or that some sectors may not be levied) it could be estimated that a levy could bring in between £5 million and £10 million per annum.

- 6.2 This is a significant enough sum to suggest the Council explore the options for and details of a Transient Visitor Levy with relevant stakeholders through a Highland consultation.

## **7. Proposed approach to undertaking a Highland consultation**

- 7.1 As part of the Budget Engagement exercise during November, the tourism levy formed the basis for discussion at the local engagement sessions with staff, communities and members. This was also included as a key question in the engagement survey where 70% of the 482 respondents reported that they agreed or strongly agreed that a tourism levy should apply in Highland. Initial analysis suggests that there was general support for a local tourism levy, both through the survey feedback and local discussion but with the power to vary this locally. Feedback highlighted the opportunities for developing and supporting local infrastructure through this approach. It was noted that further discussion was required to explore how this could operate across Highland and a more detailed consultation would support that suggestion.

- 7.2 In planning the Highland consultation exercise to be undertaken, it would be reasonable to base this around the four key questions defined in the Scottish Government's discussion document, namely:
- What would be the reasons for introducing a transient visitor tax?
  - What would a well-designed and operated transient visitor tax look like?
  - What positive and negative impacts could a transient visitor tax have?
  - How could a transient visitor tax be used, and how can revenue be distributed fairly?

However, it is anticipated that the Highland consultation would also look to gather views in a Highland specific context – for example are there Highland specific circumstances that provide reasons for introducing a transient visitor levy that may not apply elsewhere?

- 7.3 Bearing in mind the range of issues requiring consideration the proposed consultation should include gathering evidence related to all the elements referred to in section 5 above. In addition it is recommended that the consultation does not purely consider the possible effects of introducing a tourism levy but rather it should also consider what impact there might be from a “do nothing” option.
- 7.4 To ensure the greatest range of evidence is gathered so as to inform future decisions, it is recommended that a broad range of stakeholders be included in the consultation. In addition to the tourism industry this should also include groups such as communities and individual residents (who can experience both the positive and negative effects of tourism), local taxpayers and where possible the views of visitors themselves.
- 7.5 In undertaking the consultation it will be important to ensure that a wide array of people are reached, including those for whom it may be more difficult to engage. This should be achieved by offering multiple avenues and opportunities for stakeholders to participate including (but not necessarily limited to):
- promoting the consultation and encouraging responses through existing

- channels such as the Council website and / or social media presence;
- direct consultation with industry groups;
- encouraging businesses to gather visitor feedback for inclusion;
- direct consultation with Highland Communities e.g. through Community Councils;
- surveying the views of visitors;
- ensuring there is an open offer to anyone to respond; and
- hosting a series of consultation events across Highland.

For some elements of the consultation, the Council should consider the use of an independent facilitator so as to ensure an impartial and objective approach is taken.

- 7.6 To allow a range of views to be sought, it would be prudent to allow a reasonable length of time for the proposed consultation that also recognises the needs of different stakeholders. A consultation that commenced in early 2018 and ran until sometime in the spring would allow engagement with the tourism industry during one of their quieter periods while also giving the opportunity to gauge the views of visitors once numbers pick up in spring. A timetable such as this is therefore recommended.
- 7.7 It is clear that, due to the range of issues that require consideration, this will be a complex issue. However, the Council does have arrange of internal expertise spanning many of the factors and it is therefore proposed that an officer group take forward the design of the public consultation and that this be done in conjunction with the Council's Tourism Working Group.

## **8. Implications**

- 8.1 Resource – There is currently no resource identified for carrying out the consultation recommended. However it is anticipated that costs of the consultation exercise could be met from the existing Development & Infrastructure budget.
- 8.2 There are no, Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Risk or Gaelic implications arising directly as a result of this report. However, a number of implications would arise if either a voluntary or a compulsory levy was to be introduced and these implications would need to be considered as part of the planning for any levy scheme.

Designation: Director of Development and Infrastructure

Date: 5 December 2018

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## **Appendix 1: Elements that require further consideration in relation to a tourism levy**

### **Elements relating to the principle of a tourism levy**

The main factor that would need consideration is that of equity – ensuring that any proposals were fair and equitable so that no specific groups were disproportionately impacted and that income was used for genuine tourism purposes. This would involve considering many aspects including in particular (but not only) aspects such as:-

- Which business sectors might be included in any scheme proposed?
- Which business sectors would be defined as tourism ones?
- Should those offering accommodation but not formally classed as businesses be included?
- How would we ensure fairness for visitors making use multiple sectors if a levy is charged on both accommodation and non-accommodation sectors?
- If businesses need to introduce new systems to facilitate the collection of any levy would this put a disproportionate burden on any particular sector or size of business?
- Should the levy be charged in all areas and at all times of year?
- What are the logistics and implications of 'ring-fencing' spend?
- How do we define exactly what a "tourism purpose" is (as many facilities and services may be used by both residents and visitors).

### **Practical elements**

A number of practical elements will require consideration - most significantly around who would collect any levy and how. In view of the fact that the Council itself does not directly have contact with most visitors any levy collection system would likely need to involve businesses. Although Transient Visitor Levies are commonly used in other parts of Europe and beyond there is no single approach to implementation with many elements varying from place to place. Elements that the Council would need to consider therefore relate to some of these elements of detail including (but would not be limited to) aspects such as:

- No comprehensive system of registration exists that could currently be used to operate a compulsory levy scheme. However some registration and / or collection systems e.g. non-domestic rates, do exist. Should these form the basis of a levy collection system or would entirely new systems be required?
- How would the levy rate be calculated and applied e.g.
  - a percentage of the accommodation rate charged?
  - a flat rate per night?
  - a flat rate per stay/
  - a progressive rate that varies, for example with quality or charges? or
  - a levy charged on a visitor's non-accommodation activities?
- Should there be exemptions or discounts for some visitors – e.g. children, those with a disability, or carers – and if so, how would this be managed?
- If a nightly or daily rate is charged should this apply for the full duration of a stay or should there be a cap to limit the amount payable by those on longer stays?
- If businesses are expected to collect a visitor levy on the Council's behalf, how can we mitigate any potential additional costs to businesses associated with collection?

### **Wider impacts**

The introduction of any new system also has the potential to create wider impacts and it would therefore be prudent to try and identify and assess these. Two potential areas of impact are commonly mentioned but consultation could suggest others. The two commonly mentioned are:-

- The price sensitivity of the market and whether this would have any impact on tourism demand
- Any relationship with or impact on other levy schemes already in existence and whether this might cause an element of displacement.