Visitor Levy for Edinburgh Draft Scheme

The City of Edinburgh Council intends to utilise the powers granted by the Visitor Levy (Scotland) Act to impose a levy in respect of persons staying in certain types of accommodation overnight in its local authority area.

1. **Levy start date**
   The Levy will apply to overnight stays from 24 July 2026 (or around this date, subject to Council approval).

2. **Levy duration**
   The levy will remain in force indefinitely or until the Council decides to change it.

3. **Accommodation liable for the levy**
   The levy will apply to all overnight accommodation, including those with an annual turnover under the VAT threshold, within the City of Edinburgh Council boundary. This includes:
   - Hotels;
   - Hostels;
   - Guest houses;
   - Bed and breakfast accommodation;
   - Self-catering accommodation, including short-term lets;
   - Caravan sites and campsites, where people are staying in static caravans, shepherd's huts, yurts, teepees etc.
   - Accommodation in a vehicle, or on board a vessel, which is permanently or predominantly situated in one place; and
   - Any other place at which a room or area is offered by the occupier for residential purposes otherwise than as a visitor's only or usual place of residence.

4. **The levy rate**
   The levy will be a 5% capped at a maximum of seven consecutive nights and will apply year-round. The levy will be the same across the entire Edinburgh local authority area.

5. **Collecting and enforcing the levy**
   Accommodation providers within the local authority area will be liable for the levy. They will be required to submit quarterly reports, detailing the total accommodation charges and the total levy collected to a national online visitor levy portal. The levy will be payable at the same time as submitting returns.

   Accommodation providers are required to keep accurate records of all transactions that are subject to the levy. The Council will conduct inspections, as required, to ensure compliance with the scheme and remittance requirements.

   Accommodation providers who fail to comply may be subject to penalties.

Appeals relating to decisions made by the Council on the operation and/or enforcement of the scheme can be registered via an online portal or email address. The Council will aim to review and process these appeals within 28 days.

6. Exemptions and exclusions

The Visitor Levy is payable by anyone staying in accommodation which is not their only or usual place of residence (temporary or otherwise). Individuals from the below categories are not required to pay the levy:

- Those who are homeless or at risk of homelessness. This includes those who are currently homeless or at risk of losing their home in the next eight weeks. This also includes people living in very poor housing conditions, such as overcrowding, serious damp, or disrepair, or as a result of experiencing domestic abuse or other forms of violence;
- Those whose residence is unfit for habitation;
- Asylum seekers and refugees; and
- Members of the Gypsy/Traveller communities staying on dedicated sites.

In addition, Section 14 of the Visitor Levy (Scotland) Act exempts all individuals in receipt of the following UK disability benefits, payments, or allowances from paying the levy:

- Disability Living Allowance
- Disability Assistance
- Attendance Allowance
- Pension Age Disability Benefit
- Personal Independence Payment

Individuals in these categories will need to pay the levy and request reimbursement from the Council. Reimbursement can be applied for online, submitting receipts for their overnight stay, relevant evidence (as detailed on the Council's website) of their exemption/exclusion and bank details.

For those in receipt of the UK disability benefits, payments or allowances detailed above, evidence will be required to be submitted online and should include:

- The name of person in receipt of relevant eligible benefit;
- A copy (scan/photo) of relevant benefit award letter;
- Proof of payment for overnight accommodation;
- The name of the person in receipt of the relevant benefit should be included on the receipt or booking, as evidence that they were a member of the group staying in the overnight accommodation; and
- Bank details (to enable payment via BACS).

The Council will assess the evidence received and pay the reimbursement via bank transfer if the applicant is found to be eligible.

7. **Scheme Objectives**

The overarching aim of the Scheme is:
To sustain Edinburgh's status as one of the world's greatest cultural and heritage cities and to ensure that the impacts of a successful visitor economy are managed effectively and in support of the priorities as set out in the Council's Business Plan.

The objectives of the scheme are therefore: to Sustain, Support and Develop:
Public services, programmes and infrastructure that provide an enjoyable and safe visitor and resident experience.

1. Edinburgh's culture, heritage and festivals provision to ensure it remains world-leading and competitively attractive to visitors as well as residents.
2. The city's visitor economy, by fostering innovation in response to environmental and societal challenges, enhancing Edinburgh's global reputation while promoting responsible and sustainable tourism.

8. **Use of funds**

The Visitor Levy (Scotland) Act stipulates that the net proceeds of a visitor levy must be spent on facilitating the achievement of the scheme's objectives and "developing, supporting and sustaining facilities and services which are substantially for or used by persons visiting [overnight] for leisure or business purposes (or both)".

After administration and contingency costs, a fixed annual amount will be assigned to:

- Housing and tourism mitigation; and
- Participatory budgeting.

The remaining funds will then be split into the following investment streams:

- City Operations and Infrastructure (55%);
- Culture, Heritage and Events (35%); and
- Destination Management (10%).

The Council will make decisions on the use of funds after consultation with the Visitor Levy Forum (see details below), with these decisions delegated to the relevant executive Committees.

9. **Reviewing and changing the scheme**

The Council will review the VL for Edinburgh every three years to assess whether the scheme is successfully achieving its objectives and measure the impact of the scheme on businesses and communities. The review will be reported, along with detail on how the income has been spent and the benefits which the VL-funded projects have brought.

If the Council wants to make changes to the scheme following the review, it will publicly consult on the change and publish a report detailing the decision and its justification. Significant changes to the scheme will require an 18-month implementation period.

Significant changes to the scheme include:

- Increasing the VL scheme area;
- Increasing the VL percentage rate; and/or
- Removing any exemptions.

10. Visitor Levy Forum

A Visitor Levy Forum must be set up by the Council to discuss and advise on the VL scheme, including the review of the scheme, modifications to the scheme. The Forum will also be consulted on how the VL funds will be spent.

The Forum will be made up of representatives from the community and from businesses in the visitor economy.

11. Impact Assessments

An Integrated Impact Assessment (IIA) was carried out in May 2024 on the impacts of the implementation of the VL. The IIA will be updated throughout the VL scheme development, and an additional IIA will be carried out on the expenditure programmes following consultation.

A further assessment of a VL scheme's impacts in Edinburgh was originally discussed at the Policy & Sustainability Committee on 22nd August 2024 (pg 17). The assessment is included again in this report.

Measurement and Reporting of Visitor Levy Objectives

<u>**Objective:**</u> **To sustain, support and develop public services, programmes and infrastructure that provide an enjoyable and safe visitor and resident experience.**
<u>Measure:</u>
- Resident Survey – satisfaction with Services (every two years)
- Allocated spend on City Services and infrastructure from the Visitor Levy (capital value and revenue)

<u>Report:</u>
- Transport and Environment Committee report on VL programmes
- 3 yearly review report on VL for Edinburgh
- Bi-annual update on delivery of the Edinburgh Tourism Strategy 2030

<u>**Objective:**</u> **To sustain, support and develop Edinburgh's culture, heritage and festivals provision to ensure it remains world-leading and competitively attractive to visitors as well as residents.**
<u>Measure:</u>
- Visitor Survey (new annual commissioned twice a year)
- Overnight visitor numbers in Edinburgh
- Festival impact Reports
- Allocated spend on Culture, Heritage and festivals from the Visitor Levy (capital value and revenue)

<u>Report:</u>
- Culture and Communities Committee report on VL Programmes.
- 3 yearly review report on VL for Edinburgh
- Bi-annual update on delivery of the Edinburgh Tourism Strategy 2030

<u>**Objective:**</u> **To sustain, support and develop the city's visitor economy, by fostering innovation in response to environmental and societal challenges, enhancing Edinburgh's global reputation while promoting responsible and sustainable tourism.**
<u>Measure:</u>
- Visitor Survey new (annual commissioned twice a year)
- Overnight visitor numbers in Edinburgh
- Number of businesses in tourism sector signed up to Sustainability and Fair Work accreditations.
- Allocated spend on Business support to Visitor Economy and destination management from the Visitor Levy (capital value and revenue)

<u>Report:</u>
- Housing, Homelessness and fair Work Committee report on VL Programmes.
- 3 yearly review report on VL for Edinburgh

Bi-annual update on delivery of the Edinburgh Tourism Strategy 2030

Forecast and Impact on a Visitor Levy for Edinburgh

Executive Summary

This report initially presents the results of the research into the forecast of Visitor Levy (VL) revenue to the City of Edinburgh Council under a number of scenarios for different text rates (from 1% to 10%) which assume no effect on visitors from introducing a visitor levy.

In carrying out the forecasts, a seasonal ARIMA[1] (p,d,q)(P,D,Q) was used because it was considered the best fit for the type of data being examined. The forecasted models therefore account for the strong seasonality in-year prices and a trend of increasing accommodation, as well as events (such as exogenous events (e.g. the impact of COVID-19) and the recovery for a short period afterwards. Other forecasted approaches were considered and confidence intervals indicating the range of potential divergence from the mean have been calculated. However, the report's primary goal is to give the mean forecast for the years from mid-2026 to 2029.

Subsequently, the report presents the adjusted forecast of VL revenues to cover any changes in visitor behaviour and the introduction of a consecutive night cap. The impact of business and in particular on accommodation providers is also summarised in this report.

Findings

- Assuming an introduction in mid-2026 (from 1 July 2026), a 5% levy capped at seven consecutive nights will raise up to the following in Edinburgh: £30-34 million for July 2026 to March 2027; £43-46 million in 2027/28 and £45-50 million in 2028/29.
- A seven-day cap will have a minimal impact on forecasted revenue. As a policy, this may have potential local economic benefits and may assist performers in Summer Festivals and others working in Edinburgh long-term.
- 45% of the revenue generated from the levy will come from the summer period defined as the four months for June to September. This period is characterised by higher accommodation prices and greater occupancy levels.
- There are likely to be additional costs to accommodation providers in the collection and remitting returns to the Council.
- The introduction of a visitor levy will raise additional operating costs for the business including card payments, taxes and commission rates. Therefore, based on examples set internationally and a desire to maximise the data opportunity from the visitor levy, there is a strong case that a sum of 1.5% of the levy amounts collected is retained by the accommodation provider when they submit this return.

These findings and conclusions have been informed by engagement and research carried out to date. Further testing and development will continue to be informed during the proposed consultation phase of the Edinburgh Visitor Levy.

[1] ARIMA stands for Autoregressive Integrated Moving Average it is an advanced econometric model used to forecast key variables that will influence the levy revenue. These models are selected for their proven efficacy in handling time series data with seasonal patterns, which is typical of tourism-related data due to fluctuations in visitor numbers over different periods of the year.

1. Introduction

This report presents the research results into the revenue forecasts derived from the Visitor Levy (VL) in the City of Edinburgh. The research is a result of collaboration between the City of Edinburgh Council and the academic team from the University of Edinburgh. Edinburgh Futures Institute's TravelTech for Scotland provided financial support for the research.

Edinburgh welcomes over 4.5 million visitors, annually contributing around £1.2 billion to the local economy. According to VisitScotland's visitor survey 2023[2], 64% of visitors to Edinburgh are international, while 36% are domestic visitors including 3% of Scottish residents. Among international visitors, Edinburgh is the most popular tourist destination outside London - with over 2.3 million international visits in 2023, it surpassed international visitor numbers in Manchester (1.7 million visits in 2023) and Birmingham (934,000 visits in 2023). Glasgow is the second most visited Scottish destination; however, it receives significantly fewer visitors than Edinburgh - in 2023, Glasgow recorded 685,000 international visits.[3]

On average, visitors stayed 3.5 nights in Edinburgh in 2023 staying in a range of different accommodation types including hotels, serviced accommodation, guest houses and B&Bs.[4] In anticipation of the Visitor Levy (Scotland) Bill, the City of Edinburgh Council are making plans to introduce a VL in the City of Edinburgh. This will mean that a payment is made to the City of Edinburgh Council on activity related to the sale of overnight stays in the area, which is then reinvested by the Council back into services and facilities that support, sustain and develop the visitor offer and experience. The number and type of accommodation within the City of Edinburgh Council boundary was previously calculated in 2019 and has been updated as shown in the table below.

Table 1: Estimated Edinburgh Accommodation Supply

Accommodation Type	Number	Number of Units	definition of units
Hotels	181	14,763	Bedrooms
Serviced Apartments	36	1,317	Keys
Hostels	15	2,327	Beds
GuestHouses / B&Bs	178	1,290	bedrooms

Source: Edinburgh Accommodation Audit 2018 (adjusted to 2024 with new builds added from CoStar)

In addition to the above, there are also mostly seasonal accommodation types in Edinburgh, although some of these may be available 365 days a year. These include: Edinburgh Caravan and Motorhome, 35-37 Marine Drive, Linwater Caravan Park, Newbridge, Mortonhall Caravan and Camping Park, student halls that are let out over the summer period (previously reported to be around 35 student halls), and Short Terms Lets (estimated at 1 July 2024 to be around 1,753 properties with a licence active to the end of August 2024). These properties supply 3,920 rooms with a maximum occupancy of 6,565.[5]

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2 https://www.visitscotland.org/research-insights/regions/edinburgh-lothians
3 https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/articles/traveltrends/2023
4 Available from VisitScotland: https://www.visitscotland.org/research-insights/regions/edinburgh-lothians
5 Link to Edinburgh Short Term Let Licence register of Properties.

Initial Forecasts

The forecasts of Transient Visitor Levy (TVL) revenue represent a base model. In the forecasts of TVL revenue, the assumption is made that the levy will not have any impact on visitor behaviour or that such impact will be minimal and thus not reflected in the overall visitor behaviour. The initial forecast, therefore, is based on the assumption that the visitor behaviour pattern will not change, and thus no adjustments are needed using a time series approach. It is acknowledged that dynamic pricing is positively used by many hotels. It is interesting to note that average occupancy (discounting the COVID-19 period) has been increasing over time while new properties continue to be added to the accommodation stock.

This scenario examines the effect of introducing a levy rate of 1% to 10% on room costs in Edinburgh. Using an ARIMA model, forecasts for Average Daily Rate (ADR) and occupancy rates from July 2026 to 2029. Base Model 1 reflects historic growth in supply of accommodation whilst Base Model 2 reflects new build growth based on the number of new accommodation supply currently under construction in Edinburgh and expected to be open by 2026. Base Model 3 is based on the projected monthly ADR, Occupancy and room supply up to March 2029, where prices become more stable rather than continue to rise based on past performance.

Chart 1: Total Forecasted revenue from July 2026 to March 2029 in Edinburgh three models

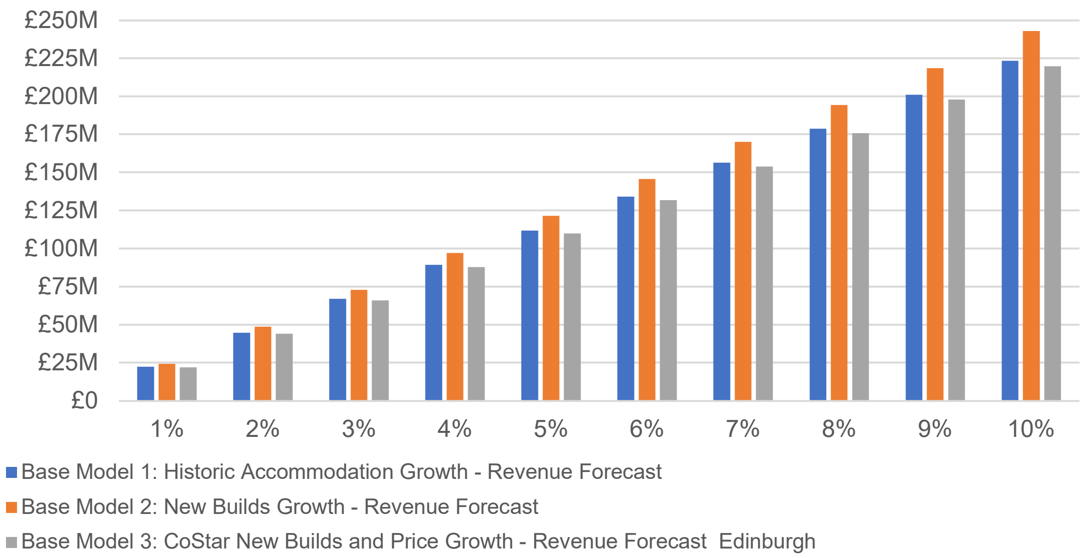
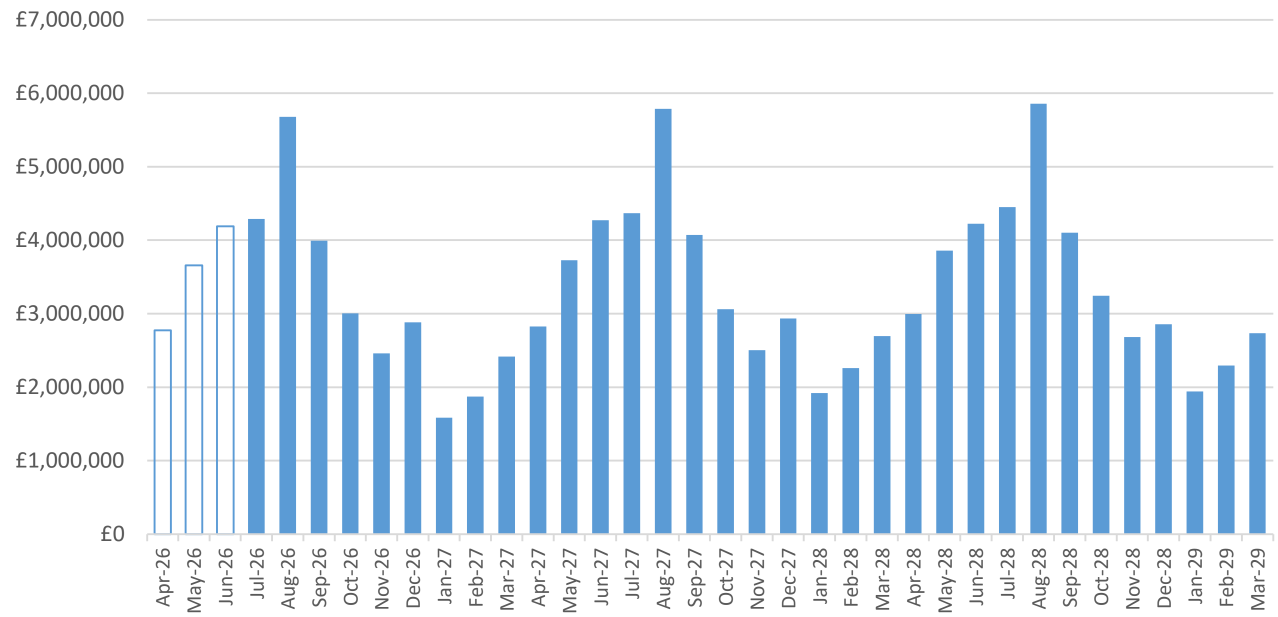


Table 2: Basic characteristics of three forecast models

Model type	Accommodation supply growth	Accommodation price change
Model 1	Based on historic trend (More conservative)	Based on historic price change (More optimistic)
Model 2	Based on expected growth those under construction in 2024 (More optimistic)	Based on historic price change (More optimistic)
Model 3	Based on expected growth those under construction in 2024 (More optimistic)	Based on future stable accommodation price (More conservative)

Chart 2: Forecast revenue from 5% levy rate Model 3 by month up to March 2029



As observed in Chart 2, revenue returns from the Visitor Levy for Edinburgh are very seasonal with almost half (around 45%) of the annual total revenue raised within the four summer months between June and September.

Table 3: Revenue Forecast with a 5% levy rate

Model type	Jul-2026- Mar 2027	FY 2027-28	FY 2028-29	Total
Model 1	£27.8 million	£40.9 million	£43.0 million	**£111.7 million**
Model 2	£31.3 million	£43.0 million	£47.2 million	**£121.4 million**
Model 3	£28.2 million	£40.4 million	£41.2 million	**£109.9 million**

Note: estimates are based on detailed information on the 302 accommodation properties in Edinburgh supplying around 19,900 rooms. The estimates do not include seasonal properties including a proportion of short terms lets, student accommodation, campsites and caravan parks.

Information on Edinburgh's supply of short-term-let accommodation was not included in the Revenue Forecast shown in Table 3. Since a long history of ADR is not available, the approach starts with assessing the mean, then making the assumption that this sector's behaviour is similar to the other parts of the accommodation industry in terms of seasonality and growth. These results are potentially conservative and will depend on the future registration of properties, and changes in preferences or visitor behaviour.

Estimates are based on sampling from shared platforms to estimate average tariffs and supply, along with the register of short term lets, to obtain a mean price at a single point in time. It has then been assumed that generally this market would be similar to the economy accommodation in performance over the year. It is further assumed that the average annual occupancy per listing is

33%.[6] As such there are a few caveats on the estimates and caution is required when observing these results.

Table 4: Additional Revenue Forecast from Short-Term-Let Accommodation supply with a 5% levy rate

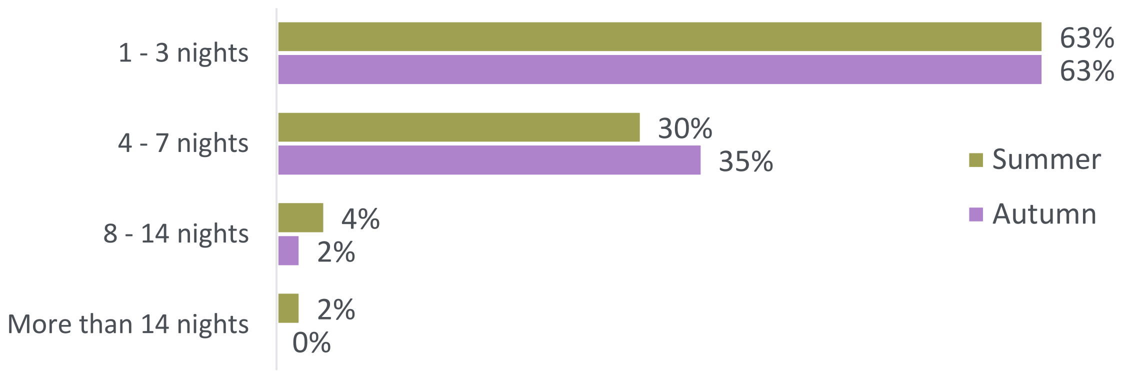
Rate	Year	Estimated Levy Revenue
5%	July 2026 -March 2027	£ 4,582,458.56
	April 2027 -March 2028	£ 6,333,942.51
	April 2028 -March 2029	£ 6,504,209.13

Impact of a Seven-Night Stay Cap on Revenue

Several tourist destinations have caps to benefit those who would stay longer in the location. This is deemed an encouragement to stay longer, but also not drive away visitors who are required to be in Edinburgh for work, such as summer festival performers.

It is expected that a seven-night cap would have a minimal impact on VL revenue as, according to VisitScotland's visitor survey report, on average visitors stayed 3.5 nights in Edinburgh in 2023.[7] Visitor survey data shows that in 2018 many visitors that stayed in Edinburgh spent less than seven nights, although marginally more people stay longer than seven nights in the summer (98% of visitors stay less than seven nights in autumn and 93% of visitor stay less than seven night in the summer).

Chart 2: 2018 Survey on Visitors staying overnight in Edinburgh accommodation during summer and Autumn period.



[6] Edinburgh | Inside Airbnb have estimated that there are 5,484 listings in Edinburgh with an average of 123 nights booked per listing per year. A lower annual occupancy rate of 33%, based on the average number of nights that were booked over the last 12 months.
[7] Available from VisitScotland: https://www.visitscotland.org/research-insights/regions/edinburgh-lothians

Table 5: Forecasted Revenue Loss due to 7 day Cap at the 5% rate level.

Financial Year	Loss due to 7-day Cap (with a 5% levy rate)
July 2026-March 2027	£38,052.11
April 2027-March 2028	£56,054.77
April 2028-March2029	£58,878.48

A seven day cap may assist performers in Summer Festivals and others working in Edinburgh long-term. It does not seem to be overly impactful to receipts. The analysis was based on survey data to assess this and the value estimated appears small. Future work is required to maintain and update this estimate based on actual data collected. This type of data may be collected as part of the data return from accommodation providers provided to the Council.

Impact on Visitors

There are several studies that have indicated that visitor demand is generally unaffected by the introduction of a VL. There is a caveat that clearly depends on the specifics of the location.

A visitor's willingness to pay depend on many factors such as personal travel budgets, length of travel, their own experience of taxation, the extent of previous visits, propensity to visit, and how their contributions are perceived to be invested. Visitors have reported a higher willingness to pay an additional amount of tax when this is earmarked for improvements in their experiences.

For example, respondents' for visiting Istanbul showed an indifference to price increases was between 3% and 100%. The average ratio of indifference was calculated as 36%. Therefore, the majority of respondents reported that they "might still come" even if the total cost was increased by one third.

It should be emphasised that measuring willingness to pay and stated reactions to a proposed new levy, without considering the overall value proposition, is limited. Interpreting results from willingness-to-pay or price sensitivity surveys should be approached with caution.

Another limiting factor in reported price sensitivity are the gaps between attitudes and behaviours of visitors. Several studies have found that visitors do not always walk the talk and more focus should be made on behaviours rather than attitudes might also provide better insights into the issue. The local authority may therefore wish to consider how the success and impact of the VL scheme on visitor behaviour is monitored throughout the lifetime of a VL scheme.

In cities across Europe there is no evidence of a tourist tax reducing the number of overnight stays. For example, in Porto who introduced a tourist tax on 1 March 2018, the volume of overnight stays has continued to increase. Porto, with a population of 232,000, recorded a 22% increase in overnight stays to 5.9 million in 2023 from 2019, according to Portugal's National Statistics Institute.[8] Observing revenue receipts across Portugal, where the levy is paid per person who stays overnight shows that over time revenue receipts and therefore also the number of overnight stays increased.

[8] Information taken from chart in Bloomberg Article dated July 2024 from Portugal's National Statistics Institute.

Table 6: Evolution of Revenue from Tourist tax in Portugal areas (in Euros)

	2019	2022	2023	% change 2022 to 2023	% change 2019 to 2023
Braga		491,085	500,650	1.9%	
Cascais	2,712,748	2,723,400	2,966,691	9%	9%
Faro		1,115,080	1,179,877		
Lisbon	36,079,944	33,062,221	40,237,624	22%	23%
Porto	15,832,876	15,015,139	18,396,028	23%	16%
Vila N. Gaia	1,364,124	1,605,410	1,705,823	6%	25%

Source: Dinheiro Vivo January 2024

There are many factors influencing a visitor that act as a driver for them to visit an area, such as events, festivals, the culture offer, visitor experience, accessibility of transport, and affordability of the area and cross price and offer effects in other destinations. Reviewed literature also supports the theory that price sensitivity and tourist behaviour differs by a range of factors including the travel purpose (e.g. business, leisure), the source market (where the tourist comes from), the type of tourism product, culture, weather and advertising.

As reported in the World Economic Forum on Travel and Tourism Competitiveness Report 2019, other factors include the enabling environment, the travel and tourism enabling conditions, infrastructure and the natural and cultural resources.

Chart 4: Factors that influence a destination's travel and tourism competitiveness

Understanding willingness-to-pay is therefore often problematic. Previous studies have found discouragement to visit a location occurs frequently at much higher rates than 4%, and often beyond 10%. Hence, it may mean that there is no change in behaviour and revenues will remain the same with a reasonable level of levy.

The impact of varying tax rates on revenue and occupancy, especially in different accommodation segments (luxury, mid-range, economy), was analysed to understand potential shifts in customer behaviour and overall market dynamics (due to the lack of demand data, occupancy was used as a proxy to understand the potential impact of baulking behaviour to the different segments). Table 7 presents the results for the 5% levy rate.

Table 7: Potential losses to VL forecasted revenue of 5% levy rate from Low to High

Year	**Low**	**Moderate-Low**	**Moderate-High**	**High**
Jul 2026-Mar 2027	£538,506	£1,346,266	£1,884,773	£2,423,279
Apr 2027-Mar 2028	£788,784	£1,971,961	£2,760,746	£3,549,530
Apr 2028-Mar 2029	£827,309	£2,068,272	£2,895,581	£3,722,889

Visitor Levies are becoming common globally, particularly if they are aimed at enhancing the residents and visitor experience of the location. It is believed that a reasonable charge will not affect the number of visitors to a location. In fact, it seems from past studies that they have little effect on the number of visitors.

While the initial forecasts of VL revenue represent a base model, it is reasonable to expect some changes in visitor behaviour. This study explored three options, two related to baulking (not visiting) and one associated with change in behaviour (moving to less costly accommodation). The analysis suggests that there may be a decrease in VL revenue with higher VL percentage rates.

Table 7: New Visitor Levy Forecasted Revenue for a 5% levy rate

Model type		**Jul-2026- Mar 2027**	**FY 2027-28**	**FY 2028-29**
Model 1	Base	£27.8 million	£40.9 million	£43.0 million
	Add STL	£4.6 million	£6.3 million	£6.5 million
	Less 7-night cap	£0.04 million	£0.06 million	£0.06 million
	Less High Rev Loss	£2.4 million	£3.5 million	£3.7 million
	Total	**£29.9 million**	**£43.6 million**	**£45.7 million**
Model 2	Base	£31.3 million	£43.0 million	£47.2 million
	Add STL	£4.6 million	£6.3 million	£6.5 million
	Less 7-night cap	£0.04 million	£0.06 million	£0.06 million
	Less High Rev Loss	£2.4 million	£3.5 million	£3.7 million
	Total	**£33.5 million**	**£45.7 million**	**£49.9 million**
Model 3	Base	£28.2 million	£40.4 million	£41.2 million
	Add STL	£4.6 million	£6.3 million	£6.5 million
	Less 7-night cap	£0.04 million	£0.06 million	£0.06 million
	Less High Rev Loss	£2.4 million	£3.5 million	£3.7 million
	Total	**£30.4 million**	**£43.1 million**	**£43.9 million**

Impact on those who collect and remit the visitor levy

Costs for Businesses – Accommodation providers

Accommodation providers will be required to calculate and collect the visitor levy payable by visitors staying on their premises, and remit all levies collected to the relevant local authority. To comply with these requirements, accommodation providers could potentially incur costs in several areas, which can be broadly split into two categories: initial setup costs and ongoing administration costs.

Initial Setup Costs

This comprises of costs associated with undertaking or commissioning necessary updates or changes to existing property management systems, resource costs such as training for existing staff to learn new systems for remitting and billing with a visitor levy, and staff time in testing and piloting the new collection system.

Another component are costs associated with renegotiating existing contracts with third parties (such as third-party booking platforms or online travel agents) where a commission is based on the price of accommodation sales to exclude the cost of a visitor levy.

Ongoing Administrative Costs

The Council has undertaken conversations with international cities who have implemented a similar type of visitor levy, read international literature on the development and management of a visitor levy, and talked directly with industry representative groups. On the specifics about administration of the scheme one factor which has been raised is that other taxes (such as VAT, business rates, corporation tax) impact businesses across many different sectors. While some small businesses are exempt from Non-Domestic Rates (NDR) and Value Added Tax (VAT), the proposed visitor levy is a type of levy that is specifically focused on one sector.

Ten different members of The Edinburgh Hotels Association (EHA) have estimated implementation costs to be between £0-£1,000 depending on their existing systems and contracts with providers.

For the ongoing costs of running the scheme and collecting the visitor levy, a different consideration is needed. Accommodation providers will be required to compile the relevant data return to comply with their new obligations, submit the data and payment to the local authority.

The ongoing costs are divided into the following:

- Costs associated with preparing regular remittance tax returns to the local authority (assuming one return per quarter).
- Costs associated with performing reconciliation exercises associated with tax returns and due diligence checks to ensure, for example, the correct visitor levy rate is applied to invoices.
- Costs associated with engaging in additional record keeping for the purposes of evidencing where a local exemption to the visitor levy was applied.
- Costs associated with explaining to customers why a visitor levy has been added to their accommodation bill.

Cost Recovery proposal for accommodation providers

When reviewing international examples it was identified that, for many, no such cost recovery process exists. Many international cities argue that the process is like all regular taxation processes, and that accommodation providers ultimately have the option of setting the price for the accommodation.

Only in a few places is there an ongoing collectors' commission in place, including Lisbon and Porto, amounting to 2.5% of the net total value remitted. Although it should be noted the collection process for accommodation providers is from a fixed rate person per night with various exemptions and also includes submitting passport detail of each guest, capturing their age, nationality, and duration of stay. These returns are also submitted to the local authority each month and as result contribute towards the gathering detailed tourism statistics. The visitor levy therefore offers a data opportunity for a local authority benefiting the community and businesses operating there. This in turn will help provide more detailed future planning and monitoring that supports the local visitor economy.[9]

The Scottish Government has argued that the visitor levy operates in a similar way to how VAT is charged: it is not a tax on business, the person who pays it is the one who is consuming the product. (20 June 2023 – Scottish Parliament Committee)

The Scottish Government has also concluded in the Scottish Parliament that the inclusion of a regular cost recovery process would set a precedent in the UK and that they felt such a decision would not be the right approach:

"we are not aware of any precedent in the UK where a business collecting tax is able to extract from their returns a sum to meet the costs of administering a tax. Although we have sought and will seek to keep the administrative costs of a visitor levy as low as possible, we do not think that allowing accommodation providers to retain some of the levy collected to meet administrative costs is the right approach." (12 March 2024 – Scottish Parliament Committee)

From engagement with stakeholders in some local authorities, it has been argued that the ongoing costs, such as payments to online travel agents and credit card fees associated with payment, are a cost of business and providers can set their rates with reference to their running costs. The minimum 18 month lead time allows for providers in most cases to consider the impact of visitor levy on their accommodation tariff and therefore adjust future pricing.

After public consultation and during their development of a Visitor Levy proposal in 2019, the City of Edinburgh Council reported that an Edinburgh VL scheme would allow for percentage fee of 1.5% of raised revenue to be retained by the providers collecting the charge. (7 February 2019 Edinburgh Council Committee – Paragraph 3.6.11)

During engagement with accommodation providers, it has been argued that there are additional business charges which will apply on top of the levy payment. These additional payments, such as credit card fees, which account for around 90-95% of transactions. Online Travel Agents (OTA) commission charges reportedly account for a large proportion of bookings and the value of the OTA commission charge for most sits between 10-20% of the accommodation price. As amended at Stage 3 of the Visitor Levy (Scotland) Bill, the visitor levy percentage rate applies to OTA commission fees. The combined effect therefore of a levy is to inflate the size of these other payments for the business.

It is therefore recommended that considering the costs for operators, a desire to maximise the data opportunity of a levy, and the continued review of practices observed by other cities that operate a similar levy, that a sum of 1.5% of proceeds collected for the levy payment is retained by the

[9] As advised by Visitor Levy Guidance by Visit Scotland, local authorities are encouraged that while these returns are to allow a local authority to monitor and administer a VL scheme, they should also consider the varying capacities of businesses in the local area.

accommodation provider when they submit this return.[10] This position can be reviewed by the local authority as part of the required three-year review of the VL scheme.

It is important to distinguish that this is not about retaining part of the levy to cover time spent remitting funds, but rather a contribution to meet costs incurred and in relation to expected and normal business transaction such as credit-card and commission payments.

Methodology and Limitations on Forecasting

Forecasting is an art and, as such, depends on the choices that are made by the modeller. Hence, two methodologies were considered for the forecasts and different individuals were engaged on the activity. There was sharing of ideas. Ultimately the decision to use Seasonal ARIMA, seemed appropriate.

For the ARIMA analysis, two people worked on the modelling and finally a judgement was made on the best model in terms of fit to the observed values. Other criterion could have been used, these were standard Times Series measures of error estimates and also the BIC (Bayesian Information Criteria).

Data consisted of four sources:

Main data was from Co-Star. This provided information on ADR for rooms in Edinburgh both combined data and broken down into three categories in our terminology luxury, mid-range and economy. Data initially was supplied from January 1996 to May 2024. (Forecasts going forward were also given.) Given that it was mean data per month, it was impossible to look at any specific day (Event Dates) or any weekly effects (Weekend v Working week). It had to be assumed that the data did not have any specific omissions, missing values. Changes to the accommodation supply was included in the data such as closure of hotels, temporary closures for renovation, and new builds. The definition of the categories was also accepted.

Survey summaries were provided by the City of Edinburgh Council based on market research of around 1,000 visitors to Edinburgh carried out in 2018. This was accepted as reliable source and we did not investigate any potential shortcomings.

Another set of data was sent based on details of hotel accommodation location in the city and would prove useful in looking at area differentials.

Short-term-let data was also provided by the Council. This was extracted from administrative data and assumed reliable at the time of this report.

[10] The 1.5% applies to the total levy collected sum, it does not apply to the revenue from the accommodation. £100 is collected from a 5% levy rate, then £1.50 is retained by the accommodation provider.

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