

ESES City Region Deal regional approach to a Visitor Levy for Midlothian

Report by Kevin Anderson, Executive Director Place

Report for Decision

1 Recommendations

It is recommended that Council:

- agrees to a watching brief on a regional approach to implementing the visitor levy with the City of Edinburgh Council as the lead authority to gain a greater understanding of the viability and implications of a regional approach to the Visitor Levy for Midlothian
- agrees to Economic Development commencing consultation with the local tourism sector and representative bodies once the Parliamentary phase is complete, expected to be August 2024.

2 Purpose of Report/Executive Summary

2.1 At the August 2023 meeting of the City Region Deal (CRD) Visitor Economy Partnership (RVEP) a discussion was held on what each of the partner local authorities' plans were on implementing a Visitor Levy on overnight accommodation in all, or part, of their area.

The City of Edinburgh Council having progressed further than the other partner authorities suggested that an option would be to implement a regional approach to optimise efficiency and resource allocation within the region. The primary focus of this paper is to advocate for a watching brief on the City of Edinburgh's progress, reporting on developments to aid future decision making. Approval is also requested to commence consultation with Midlothian's Tourism sector and representative bodies in 2024.

Date 30th October 2023

Report Contact: Annie Watt, Economic Development Manager (Acting)
Annie Watt Tel No: 07823 551097

Annie.Watt@midlothian.gov.uk

3 Background/Main Body of Report

The Visitor Levy (Scotland) Bill

- 3.1 The Visitor Levy (Scotland) Bill (VLB) is a bill of the Scottish Parliament to give local authorities the power to impose a visitor levy in respect of persons staying in certain types of accommodation overnight and was published on 24 May 2023.
- 3.2 The VLB encompasses a provision granting councils the authority to introduce a Visitor Levy within their respective localities. This authority will be discretionary, placing the decision-making power for implementation in the hands of Scottish Local Government and the local populace.
- 3.3 The proposed Visitor Levy, outlined in the Bill, will manifest as a percentage of the rate charged by accommodation providers per occupied night. The precise percentage is at the discretion of local authorities. Economic Development carried out an exercise earlier this year, prior to the design of the preferred methodology of charging a percentage of the accommodation price (Appendix B). The potential visitor levy information relied on a fixed rate of £2 per night, for a maximum of seven nights and is included in this report to provide an indicative insight into the potential revenue that the Levy could realise for Midlothian and the other partner authorities in the CRD area. Whilst income to develop and maintain infrastructure is welcomed it should be noted that the potential income for Midlothian may not fully cover the expenses associated with establishing the Visitor Levy system, as outlined in the potential cost of implementation (Appendix C).
- 3.4 The Bill mandates that councils engage in consultations and generate impact assessments before arriving at a formal decision to implement the Levy. Following this, an 18-month transition period will be provided to aid accommodation providers. This implies that the earliest projected commencement of the Levy is in the year 2026.
- 3.5 The specific nature, extent, and exemptions within the Levy will be subject to councils' discretion. For example, the Levy might be applicable only during specific months, within sections of a local community, or it might incorporate exceptions for certain types of accommodation providers or a limited number of nights per stay.
- 3.6 **Visitor Levy – Provisional Timeline**

Visitor Levy Bill Introduced - **24 May 2023**

Call for Views Deadlines – **15 September 2023**

Scottish Parliament Stage 1 - **December 2023 to January 2024**

Scottish Parliament Stage 2 - **Spring 2024**

Scottish Parliament Stage 3 - **Summer 2024**

Commencement of Bill - **August 2024**

Lead-In Time & Consultation Period - **18 months+**

Levy Introduced in Local Area – **2026**

Midlothian Approach

- 3.7** The Visitor Levy Bill aims to provide additional revenue to areas facing visitor capacity challenges, enabling them to alleviate the associated pressures. Currently, Midlothian is not at visitor capacity and our economic strategy seeks to collaborate on a regional basis to increase visitor numbers to Midlothian, the recently introduced Short Term Let (STL) licencing regulations, and the City of Edinburgh Council's policy to refuse licences for tenement properties should realise an opportunity to increase accommodation demand and provision in Midlothian.
- 3.8** The implementation of a Visitor Levy warrants careful consideration, as it presents both advantages and disadvantages. The decision to enact such a levy is contingent upon several factors, including the size and characteristics of the area under consideration. This report examines the implications of introducing a Visitor Levy, with a specific focus on smaller regions like Midlothian.

Benefits and disadvantages:

- 3.9 Tourist Footfall:** Major tourist hubs such as Edinburgh City attract high volumes of visitors annually, drawn by multiple factors including rich history and cultural attractions. The implementation of a Visitor Levy in these areas can yield substantial revenue for needed infrastructure improvements. However, Midlothian experiences a significantly lower volume of overnight stays by comparison to Edinburgh, Fife, and East Lothian, as shown in Appendix B. Consequently, the revenue generated from a Visitor Levy in Midlothian would be considerably lower and may not sufficiently justify the associated administrative costs.
- 3.10 Infrastructure and Services:** The increased revenue generated from the levy can be channelled into the maintenance and enhancement of infrastructure, public services, and tourist facilities, thus ensuring a favourable experience for visitors. Conversely, Midlothian possesses less tourist infrastructure and attractions relative to more prominent areas. Consequently, there may be fewer opportunities to effectively reinvest the levy revenue in tourism-related projects.
- 3.11 Economic Impact:** Tourism plays a pivotal role in local economies. For instance, as demonstrated in Appendix B, certain regions like Edinburgh stand to gain significantly from a visitor levy, estimating around £14M in revenue. In contrast, areas like Midlothian are projected to generate approximately £196,000 per annum. The Visitor Levy can serve to offset the expenses incurred due to the adverse impact of tourism on areas, including increased wear and tear on public spaces, investment in local facilities and services, such as waste, cleansing and improvements to public areas and greenspaces helping to attract more visitors.

- 3.12 Diverse Tourism Offerings:** Revenue generated from the Visitor Levy can be strategically reinvested to promote a diverse range of tourism experiences, ranging from festivals to museums and historic and cultural events and also support tourism-related businesses. Nonetheless, implementing a Visitor Levy in Midlothian could be perceived as a competitive disadvantage. As Midlothian competes with Edinburgh with its city attractions and East Lothian for its coastal offerings, if Midlothian were to choose to not implement the levy then this would increase our competitiveness and encourage more visitors to choose Midlothian for overnight stays.
- 3.13 Administrative Complexity:** It is essential to acknowledge the administrative complexities associated with the implementation and management of a Visitor Levy. These complexities may disproportionately outweigh the benefits for smaller regions like Midlothian, especially if the necessary resources to efficiently administer the levy are lacking.
- 3.14 Expenses linked to the introduction of a Visitor Levy:** Appendix C presents the anticipated expenses linked to the introduction of a Visitor Levy for Midlothian Council. COSLA have suggested that the earliest possible start date for the Levy is 2026, however, 'Year T' is the year in which a local authority implements a visitor levy. There are various factors to justify why these costs might be viewed as excessive for Midlothian Council.
- 3.15 Consultation and Decision-making Costs:** In Year T-2, the consultation and decision-making process is estimated to cost between £10,000 and £20,000. While this cost is relatively modest, it signifies an initial financial commitment.
- 3.16 Set-up Costs:** The set-up costs in Year T-1 and Year T range from £50,000 to £230,000. This is a substantial financial investment, especially considering the potential range, which could significantly impact the council's budget.
- 3.17 Administration Costs:** The ongoing administration costs from Year T to Year T+2 is projected to be between £190,000 and £500,000 annually. These costs would represent a recurring financial burden on Midlothian Council's resources negating the potential income benefits of a levy.
- 3.18 Cumulative Total:** The total costs over the five-year period range from £60,000 to £250,000 in the initial year to £190,000 to £500,000 in subsequent years. The cumulative expenses may strain the council's finances, especially if the higher end of the cost estimates is realised.
- 3.19** In summary, the costs associated with implementing a Visitor Levy in Midlothian Council are substantial, with potentially significant financial implications. The decision to proceed should consider whether the

expected benefits, such as the increased revenue for infrastructure improvements sufficiently covers the financial and resource costs, and whether the council's budget can accommodate such an expense. Subsequently, the following section elaborates on how adopting a regional approach can offer several advantages, including cost reduction.

Regional Approach Visitor Levy

- 3.20** As detailed in the Regional Prosperity Framework prospectus and delivery plan 2023/24 enhancing the Regional Visitor Economy is a key regional action (Appendix D).
- 3.21** Edinburgh and Southeast Scotland are committed to fostering collaboration at a regional level to ensure the responsible growth, optimisation, and equitable distribution of the benefits stemming from the region's robust visitor economy. This commitment is managed through the Regional Visitor Economy Partnership (RVEP).
- 3.22** The RVEP's aim is to establish a robust Regional Partnership that includes key stakeholders such as Visit Scotland, Scottish Enterprise, Local Authorities, and other relevant entities. This partnership will facilitate more efficient and effective cross-regional cooperation, ultimately benefiting the regional visitor economy.
- 3.23** The RVEP is co-creating a comprehensive Regional Visitor Economy Development Plan. This plan will align the region's aspirations and actions, to transform it into a world-class year-round visitor destination. The vision includes a forward-looking, ambitious approach to responsible tourism.
- 3.24** A regional approach to the Visitor Levy was discussed at the Visitor Economy meeting on the 23 August 2023. There was consensus that it presented a reasonable and efficient option for implementation. This would allow ESES CRD partners to monitor the progress of the City of Edinburgh Council's (CEC) programme and fully consider future participation. CEC is significantly ahead in the process, being one of the primary beneficiaries of implementing a tourism levy. Additional details can be found in the report considered by Policy and Sustainability Committee - [A Visitor Levy for Edinburgh: Progress Update and Draft Proposal](#). CEC are reluctant to transition to a regional model at this point in time and noted their preference to continue as planned while more information is released and explore how a regional model would operate through the RVEP with each partner authority reporting to their respective Councils for agreement on a watching brief as the process progresses.
- 3.25** Introducing a Visitor Levy regionally, as opposed to individual local programmes for each local authority area, can yield numerous advantages, particularly in the ESES CRD area, which is projected to be the primary revenue generators for Scotland, as demonstrated in Appendix E.
- 3.26** **Consistency:** A regional Visitor Levy can ensure a consistent approach across a broader area. This consistency can create a more

level playing field for tourism-related businesses and prevent tourists from choosing destinations solely based on levy avoidance, promoting fairness in the industry.

- 3.27 Revenue Amalgamating:** A regional Visitor Levy allow for the pooling of levy revenue from multiple areas within a region. This can result in a larger and more stable revenue stream, which can be used to fund regional projects, infrastructure improvements, and marketing efforts to attract tourists on a larger scale.
- 3.28 Economies of Scale:** Managing a regional levy system can be more cost-effective than implementing separate levies at the local level. It can reduce administrative burden and the need for multiple levy collection systems, making the process more efficient.
- 3.29 Promotion and Marketing:** A regional Visitor Levy can be used to fund marketing campaigns and initiatives that promote the entire region. This can benefit all areas within the region by attracting more tourists and encouraging them to explore a wider range of attractions.
- 3.30 Infrastructure Development:** Regional levy revenue can be invested in larger infrastructure projects that benefit the entire region, such as transportation improvements, regional parks, or cultural centres. This can enhance the overall tourism experience and boost the region's attractiveness.
- 3.31 Tourism Growth:** A regional approach can support sustainable tourism growth by addressing the collective needs and challenges of multiple areas. This can lead to long-term benefits, as opposed to short-term gains that may result from localised levies.
- 3.32 Tourist Experience:** A regional levy can be used to enhance the overall tourism experience by funding amenities, visitor centres, and services that cater to tourists across the entire region. This can improve satisfaction and encourage repeat visits.
- 3.33 Coordination and Collaboration:** A Regional Visitor Levy requires coordination and collaboration among different authorities and stakeholders. This can foster cooperation, knowledge sharing, and joint efforts to maximise the benefits of tourism for the entire region.
- 5.7** It is important to note that implementing a regional Visitor Levy also comes with challenges, including the need for regional cooperation, revenue-sharing agreements, and equitable distribution of funds among participating areas. Additionally, the success of a regional approach depends on the specific characteristics and goals of the region in question. Careful planning and consideration of local circumstances are crucial when deciding whether to implement a regional Visitor Levy.
- 5.8** Council officers have actively participated in ongoing discussions within the Visitor Economy partnership, exploring strategies for the implementation of a visitor levy across Scotland. Through these engagements, Officers have recognised the merit of adopting a regional approach to the visitor levy. As endorsed by the regional approach of ESES CRD, it is crucial for Midlothian to collaborate with fellow local authorities in this group so that we gain clear detail on the resource impact and infrastructure realisation benefits for Midlothian. If

Midlothian decide to implement a levy a regional approach should result in cost savings for Midlothian, mitigating the resource and budget constraints of pursuing independently.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

Implementing a visitor levy at a local and regional level typically requires the following resources:

- **Legal Framework and Regulations:** Developing and enacting the necessary legal framework and regulations is crucial. This includes defining the scope of the levy, setting tax rates, determining exemptions, and establishing collection and enforcement mechanisms. Legal expertise and government resources are required to draft and implement these regulations.
- **Administrative Infrastructure:** To collect and manage the visitor levy efficiently, you need administrative infrastructure. This includes personnel to handle levy collection, accounting, and auditing, as well as the development or acquisition of software and hardware for levy management and payment processing.
- **Public Engagement and Communication:** Successful implementation of a visitor levy often depends on public support and understanding. Resources are needed for public engagement campaigns, including public hearings, marketing, and educational initiatives to inform residents and visitors about the levy's purpose, benefits, and how it will be used to support the local or regional community.

4.2 Digital

Implementing a visitor levy at a local and regional level requires careful consideration of digital requirements:

- **Online Payment System:** To collect visitor levies efficiently, a robust online payment system is crucial. This system should support various payment methods, provide secure transactions, and be user-friendly.
- **Visitor Registration and Tracking:** Implementing a digital platform for visitor registration and tracking is essential. This system should capture visitor information, including demographics and

length of stay, while ensuring data privacy compliance. It helps in managing levy collections and assessing the impact of tourism on the region.

- **Reporting and Analytics:** A digital infrastructure should be in place to generate reports and performance analytics on levy collections and visitor data. This enables local authorities to make informed decisions, allocate funds appropriately, and adjust levy rates as needed to benefit the local community.

4.3 Risk

Implementing a visitor levy at a local and regional level carries risks:

- **Economic Impact:** Visitor levies may deter tourists, especially price-sensitive ones, which could have negative economic consequences for local businesses and employment.
- **Competitiveness:** High levies can make a destination less competitive compared to other regions, potentially leading to a decline in tourism.
- **Administrative pressure:** Setting up and administering the levy system can be costly, and there may be resistance from businesses and visitors. The administration can also put increased pressure on the existing workforce.
- **Public Perception:** If not implemented transparently and fairly, levies can create dissatisfaction among residents and visitors, affecting the destination's reputation.
- **Impact on Low-Income Visitors:** Levies can disproportionately affect low-income tourists, potentially making the destination less accessible for a broader range of visitors.
- **Unpredictable Revenue:** Revenue from levies can fluctuate based on tourism trends, making it challenging to budget effectively.

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

The introduction of a Tourism Visitor Levy for Midlothian could support sustainable development for Tourism Culture and Heritage and responsible tourism with the potential to increase local employment.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☐ Modern
- ☒ Sustainable
- ☐ Transformational
- ☒ Preventative
- ☐ Asset-based
- ☐ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☐ Efficient and Modern
- ☒ Innovative and Ambitious
- ☐ None of the above

A.4 Delivering Best Value

The optimal choice for Midlothian Council would be to adopt a regional approach for implementing a visitor levy. This approach should be more cost-effective, as the revenue may not cover the costs of implementing a local level tourism levy. To ensure best value, it would be wise to closely observe and learn from the progress and implementation of the Edinburgh Council Visitor Levy plans, gaining valuable insights into the feasibility of introducing a Visitor Levy for Midlothian, whether independently or in partnership.

A.5 Involving Communities and Other Stakeholders

All ESES CRD regional partners have been involved in discussions around the visitor levy. Nationally the Levy Survey is collating views of the sector and the public.

A.6 Impact on Performance and Outcomes

A.7 Adopting a Preventative Approach

Implementing a Visitor Levy at the regional or local level serves as a proactive measure, generating funds to support regions currently facing the challenges of tourism while also enabling these regions to prepare for future increases in visitor numbers.

A.8 Supporting Sustainable Development

Adopting a regional strategy for the visitor levy has the potential to foster sustainable development in Midlothian, as it would entail collaboration with ESES CRD regional partners to attain mutually agreed-upon goals.