

An Analysis for Introducing a Tourism Levy in Aberdeen

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1 EXECUTIVE SUMMARY

1.1 The overall objective of the study is to consider the costs and benefits of a tourism levy. The purpose of a levy would be to generate a sustainable revenue stream that would be ring-fenced for investment in the development of the tourism sector, for example:

- a. Destination promotion and marketing;
- b. Specific marketing campaigns;
- c. Supporting the delivery of international and national events; and/or cultural development
- d. Supporting the delivery of new tourism infrastructure to attract more visitors
- e. All activities funded through the fund would have to demonstrate an additional impact on overnight stays.

1.2 The report provides a background to the origins of the proposal. It also looks at the value of tourism to the Aberdeen economy, how much the Council invests in the tourism sector and how a levy can be used as funding stream to promote tourism.

1.3 A comparator analysis of tourism levies in major cities is undertaken to establish how levies vary across cities and regions that are not applied or calculated consistently:

- some are applied locally while others are on a national basis;
- some apply it only to one or two locations while others apply to certain cities;
- some are based on hotel rating/type while others are based on overall cost and others are a set fee.

1.4 As it currently stands, a local authority cannot introduce a levy. The report considers legal issues around implementing a levy and the legislation to do so. Without support from Scottish Ministers, a council cannot introduce a tourism levy and that either primary or secondary legislation would be needed.

1.5 The simplest method of administering a tourism levy is to make accommodation providers responsible for collecting the levy and transferring it to a local government or an independent third party to administer. The cost of administering the levy is unlikely to exceed no more than 0.75 of an administrative employee (around £18,000 per annum).

1.6 The revenue benefits of a scheme depend on application by accommodation type and the resulting charge. The report considers a range of accommodation options included in the levy and the different options around the size of the levy. If implemented, and based on assumptions on accommodation type and occupancy, a flat rate levy of £1 a night on hotels, guest houses, serviced accommodation and B&Bs could generate around £1.7m a year of revenue.

1.7 The Air BnB sector is difficult to regulate and assess its size and the scale of revenue that could be obtained from a tourism levy. As a close competitor to hotels and guest houses, if it were to be included in the scope of any tourism levy careful consideration would have to be given to any legal drafting as well as how to enforce payment.

2 BACKGROUND

Origins of the Proposal

2.1 The proposal for a levy originated in the discussions with the UK and Scottish Governments on an Aberdeen City Region Deal in 2015. Tourism is a key sector within the city and regional economy, and the December 2015 Regional Economic Strategy focused on diversification within the sector to reduce an over-reliance on the strong business tourism market and maximise opportunities in leisure markets, and particularly in relation to the Council's delivery of new events infrastructure with the new AECC, its support to delivery of a new events strategy, the City Centre Masterplan, and supporting the new destination management organisation, VisitAberdeenshire.

2.2 The case to the governments for a levy was that additional revenue funding would be needed to invest in the sector, and a levy on visitors, payable to the accommodation provider, and in turn to the local authority, could provide greater investment to the sector.

2.3 Since then, officers in the Aberdeen City Council have been exploring this concept with other cities in the Scottish Cities Alliance, and with city and regional stakeholders.

2.4 Tourism promotion in general can be funded by either by a levy on accommodation, by the private sector, the public sector, or a combination of all three sources. The most frequently encountered form of tourism levy is the accommodation levy applied to occupied hotel rooms. This levy can be used by the government to raise revenue or they can be hypothecated or ring-fenced to support tourism.

2.5 As public sector finances continue to be under pressure, increasingly UK and Scotland tourism destinations are looking at alternative funding models. A levy on people staying in hotels and other types of accommodation is a proven, sustainable model of funding for destination development and marketing of a city region.

2.6 Key elements of this type of mechanism are:

- 100% of revenue collected must be ring-fenced for tourism activities;
- the revenue collected must be used to supplement, rather than substitute for, existing public sector support;
- the tourism industry is able to influence / govern how revenue is spent;
- to avoid 'freeloading' by non-participating businesses a fully inclusive scheme will be required;
- revenue must be collected from visitors and the collection of revenue must be simple and cost effective for business.

Consultation With Stakeholders

2.7 From initial discussions with representatives of the hotel sector, concerns were raised around the following issues:

- Competitiveness - a tourism levy in Aberdeen would make Aberdeen a less competitively priced destination in relation to other Scottish cities and demand for hotel accommodation in a sector that has experienced a difficult period due to the downturn in the oil and gas sector could fall
- Demand - displaced to accommodation that is not liable for a tourism levy, and consideration needs to be given to the scope of a levy.
- Ensuring fairness - across types of accommodation providers when consideration is made towards the scope of the levy and also within any charging regime so that the hotel sector does not bear a disproportionate burden.
- The hinterland (or immediate hinterland) of Aberdeen, within the Aberdeenshire Council, is within the scope a levy to avoid any displacement if that was to occur
- Proceeds – if a levy was to materialise, the revenues must be ring-fenced for development of the tourism sector (eg marketing, destination development, events, culture etc).
- The spending of the levy must deliver a greater benefit than cost
- Those whose customers contribute should have a major say (involvement) in determining how monies are spent

Value of the Sector

2.8 Tourism is a large and growing sector. In 2014, tourism in Aberdeen had an approximate turnover of £456 million and contributed £271m Gross Value Added to the economy (£26,150 GVA per employee). In 2015, 11,300 people were employed within Tourism in Aberdeen City, which was up from 10,300 the previous year¹.

2.9 Tourists from the UK between 2013 and 2015 made an average annual number of 660,000 trips a year to Aberdeen spending 1.85 million nights and £158 million². Overseas tourists made an average annual number of 217,000 trips a year to Aberdeen spending 1.18 million nights and £95 million³ in 2015. This equates to a total of 877,000 trips, 30 million nights and spend of £253 million.

¹ The Scottish Government. Scottish Growth Sector Statistics, 2016.

² Visit Scotland GB Tourist 2015, http://www.visitscotland.org/pdf/GBtouristreport_2015.pdf

³ Visit Scotland Scotland's Regional Markets 2015, <http://www.visitscotland.org/pdf/ScotlandRegional%20-%20MarketStats%20Oct2016%20-Final.pdf>

2.10 Visit Britain forecast that tourism is expected to grow at 3.8% per annum until 2025, which is significantly faster than the rest of the economy⁴.

2.12 The Council has a role in promoting tourism in the City and the wider region. The 2015/16 Local financial Return for Aberdeen City Council indicates that £35 million was invested in culture and related services category, of this estimates of £12.5 million could be categorised as tourism and recreational spend. The table below provides the summary of this spend.

Table 1: Summary of Spend

	£ (m)
Museums and Galleries	3,2
Tourism/Events	1,8
Parks/Open Space	7,5
	£ 12,5m

⁴ <https://www.visitbritain.org/visitor-economy-facts>

3 COMPARATOR ANALYSIS

3.1 Many European cities and a number of global cities have tourism levies which are levied via the hotel sector. Levies in these countries are typically a devolved issue so tend to be set and administered locally by the relevant municipal authority. For this reason, hotel levies can vary by individual city in the same country (for example, Rome and Venice in Italy).

3.2 Table 2 summarises tourism levies in European and global cities. Given the VAT rate in the UK, at 20%, and some VAT regimes are reduced for the tourism sector, we show the comparative VAT (or equivalent) rates. The table indicates that levies vary across cities and regions which are not applied or calculated consistently:

- some are applied locally while others are on a national basis
- some apply it only to one or two locations while others apply to certain cities
- some are based on hotel rating/type while others are based on overall cost and others are a set fee.

Table 1 : Tourism levies in other European and global cities

City	Tourism Levy	VAT rate on hotel accommodation
Paris	Levy de séjour Price per person per night based on star rating: 'Palace' €4.40 5* €3.30 4* €2.48 3* €1.65 2* €0.99 1* €0.83 Apartment hotels, furnished accommodation €0,83 3*, 4* and 5* campsites, caravan parks €0.60 1* and 2* campsites, caravan parks and marinas €0.22 Includes 10% 'départementale' levy	10% (Standard VAT rate on goods and services = 20%)
Berlin	City levy 5% of the room rate excluding VAT and extras such as the use of hotel facilities like spas or services not included in the room price. Applies to all accommodation types The collection of the levy is limited to 21 successive days	7% (Standard VAT rate = 19%)
Hamburg	Culture and tourism levy Per person per night based on the net payment for the stay (excluding VAT). . €10 = €0 €25 = €0.50 €50 = €1 €100 = €2 €150 = €3 €200 = €4 For every additional 50.00 euros of the net payment or part thereof, the levy increases by one euro each time. This means, for example, for accommodation costing 250.00 euros the levy will be five euros.	7% (Standard VAT rate = 19%)

City	Tourism Levy	VAT rate on hotel accommodation
	Extra services such as breakfast are not subject to the levy. Applies to hotels, motels, boarding houses or guest houses Business travellers who have to stay overnight for essential professional or business-related reasons are exempted from the levy.	
Amsterdam	City levy / Toeristenbelasting 5% of the room rate per night (excluding breakfast and other extras) payable by non-residents of Amsterdam. Business travellers are liable for the levy.	6% (Standard VAT rate = 21%)
Venice	City levy / Imposta di Soggiorno Based on accommodation type, star rating and area of the city. Charged per person, per night, up to a maximum of 5 consecutive nights. For hotels in the historical centre (1 st Feb to 31 st Dec) : 5* €5 4* €4.50 3* €3.50 2* €2 1* €1 50% reduction for young people aged 10-16 50% reduction Nov-Mar, excluding Carnival and winter peak times, 40% reduction for accommodation on mainland, 30% for accommodation at Venice Lido, 5 star hotels excluded.	10% (Standard VAT rate = 22%)
Rome	City levy / Imposta di Soggiorno Per person, per night, max 10 nights. 5* = €7 4* = €6 3* = €4 1* and 2* = €3 Farmhouses and residences = €4 Bed and breakfasts. Rented rooms, holiday homes = €3.5 Campsites = €2 (max 5 nights) Hostels excluded, Exemptions for residents in Rome, children aged up to 10, all who accompany patients for health reasons, police and armed forces, one coach driver and one tourist guide for every 23 group members..	10% (Standard VAT rate = 22%)
Barcelona	Tourism levy / Impost de turisme Per person, per night for a maximum of 7 nights. 5* = €2.25 4* = €1.10 Other establishments and facilities (including hotels, apartments, campsites, youth hostels, house for tourist use and mobile accommodation) = €0.65 Children under 16 exempt.	10% (Standard VAT rate = 21%)
Brussels	Tourism levy	6% (Standard VAT rate = 21%)

City	Tourism Levy	VAT rate on hotel accommodation
	<p>Proportionate to the number of rooms available in each hotel and by category of hotel as classed by the Commissaire au Tourisme or the Commissariat General Flamand au Tourisme:</p> <p>Levy levied per room, per night</p> <p>Unclassified – €2.15 Category 1 or H1 €2.10 Category 2 or H2 €2.90 Category 3 or H3 €4.50 Category 4 or H4 €7.15 Category 5 or H5 €8.75</p> <p>Exemptions for housing assigned for social assistance.</p>	
Vienna	<p>Orslevye 3.2% of accommodation cost</p>	
Lisbon	<p>Municipal Tourist Levy €1 per person per night up to a maximum of 7 nights.. Exemptions for children under 13 and those whose trip is for medical reasons during the period of hospitalisation + 1 additional night (and that of an accompanying party).</p>	<p>6% (Standard rate = 23%)</p>
Vancouver	<p>Municipal and Regional District levy (MRDT). 3% on the purchase price of the accommodation. short-term accommodation provided</p>	<p>8% Provincial Sales Levy (PST) on accommodation (Standard PST = 7% + Goods and services levy (GST) = 5%)</p>
New York	<p>New York City Hotel Occupancy levy = 5.875% New York City Hotel Unit Fee = \$2 per room per night for rooms above \$40 a night. New York State Javits Convention Center fund = \$1.50 per room per night.</p>	<p>8.875% comprised of: New York State Sales levy 4% New York City sales levy 4.5% MCTD (Metropolitan Commuter Transportation Mobility Levy) 0.375%</p>

3.3 Further Case Study information on some of these cities is provided below.

PARIS

In 2015, Paris moved from a flat rate levy to a new system based on the grading. The levy is levied on a per person, per night basis, which is added to the customer's bill by the hotel. The amount of levy charged is displayed by the landlord, hotel or accommodation owner and must appear on the bill provided to the customer.

The main exemptions from the levy are:

- Children under the age of 18
- People with a temporary contract to work in the area
- Those living in emergency housing or temporary rehousing
- People living in premises with rent below an amount determined by the local council.

The levy is charged at the following amounts:

- 'Palace'⁵ €4.40
- 5* €3.30
- 4* €2.48
- 3* €1.65
- 2* €0.99
- 1* €0.83
- Apartment hotels, furnished accommodation €0.83
- 3*, 4* and 5* campsites, caravan parks €0.60
- 1* and 2* campsites, caravan parks and marinas €0.22

These rates include a 10% départementale⁶ levy for subnational government.

BERLIN

Since 2014, tourists in Berlin staying overnight are subject to an accommodation levy. This applies to any type of short-term, paid accommodation, and the levy is due whether or not the hotel guest actually spends the night in the room. The levy is added to the hotel bill and collected by the accommodation providers. The hotel is responsible for collection and for passing it on to the federal state of Berlin. It is an indirect levy: the accommodation providers transfer the levy and are authorised to claim the same amount of money from their guests in turn. However, it is not obligatory to pass the fee on to guests. Accommodation providers are defined as

⁵ Exceptional hotels are awarded Palace status introduced by the French Minister of Tourism in November 2010 to award official recognition to the finest 5-star hotels..

⁶ Départements are effectively the middle tier of subnational government in France, in between regions and the communes. There are 96 departments in metropolitan France and five overseas.

businesses that provide short-term overnight accommodation, including hotels, guest houses, private landlords, independent hostels, youth hostels and campsites.

Business travellers are exempt from the City Levy provided they can prove the purpose of their trip with an official letter from their employer. The Occupancy Levy is 5% of the price of the hotel room (without extras, such as meals, items from the minibar, the use of hotel services and facilities not included in the room price, etc.). Germany has a reduced rate of VAT for hotel accommodation of 7 per cent compared to the standard rate of 20 per cent.

HAMBURG

On 1 January 2013, Hamburg introduced a culture and tourism levy. The operators of the accommodation are liable for payment of the levy and may pass it on to the guest. The operator of the accommodation is obliged to declare and transfer the levy to the revenue office on a quarterly basis. All of the revenue is invested in tourist, cultural and sporting projects.

The culture and tourism levy is charged per person, per night based on the net payment for the stay (excluding VAT) at the following rates:

- €10 = €0
- €25 = €0.50
- €50 = €1
- €100 = €2
- €150 = €3
- €200 = €4

For every additional €50.00 of the net payment or part thereof, the levy increases by one euro each time. This means, for example, for accommodation costing €250 the levy will be €5. The levy applies to hotels, motels, boarding houses or guest houses. Extra services such as breakfast are not subject to the levy. Business travellers who have to stay overnight in for essential professional or business-related reasons are exempt from the levy. Germany has a reduced rate of VAT for hotel accommodation of 7 per cent compared to the standard rate of 20 per cent.

AMSTERDAM

Amsterdam's levy is charged on overnight stays in hotels, guesthouses, apartments, holiday homes, holiday accommodation, camping mobile shelters, moorings for boats and non-professional leased premises on land or on water. The levy is 5 per cent of the room rate per night (excluding breakfast and other extras) payable only by non-residents of Amsterdam. Business travellers are however liable for the levy.

People that sublet their homes are required to collect and pay the tourist levy to the City of Amsterdam. The City of Amsterdam and third-party apartment rental website Airbnb collaborate to make it easier for Amsterdam residents to follow these regulations. As part of this collaboration, Airbnb collects and remits the tourist levy on behalf of the rental hosts. Residents subletting their home are required to register this information with the City of Amsterdam and collect the appropriate levies from their guests.

VAT on hotel accommodation in the Netherlands is charged at 6% compared to the national standard rate of 21%.

VENICE

Venice's city levy varies according to where the accommodation is located in the city and according to the type and grade of accommodation as well as the time of year. The following amounts are charged per person, per night, up to a maximum of five consecutive nights in the historical centre during the period 1st Feb to 31st Dec:

- 5* = €5
- 4* = €4.50
- 3* = €3.50
- 2* = €2
- 1* = €1

There is a 50% reduction for young people aged 10-16 years. A 40% reduction exists for accommodation on the mainland, and a 30% reduction for accommodation at Venice Lido. Five star hotels do not receive a reduction.

ROME

The tourist accommodation levy in Rome is one of the most expensive in Europe. It applies to guests of hotels, holiday homes, rented rooms, bed & breakfasts and camping grounds in Rome (but not hostels). The levy is paid on a per person per night basis. Rates are as follows:

- 5* = €7
- 4* = €6
- 3* = €4
- 1* and 2* = €3
- Bed and breakfasts, Rented Rooms, Holiday Homes and Holiday Apartments = €3.50
- Farmhouse Accommodation and Residences = €4
- Open air facilities, camping grounds and areas equipped for temporary stops = €2

The levy is applicable up to a maximum of 10 consecutive nights within one year for hotels and a maximum of five nights for campsites.

There are exemptions for:

- Persons who are residents of Rome, children up to age 10
- All who accompany patients for health reasons
- Members of the State police force and the other armed forces, and
- One coach driver and one tour leader/tourist guide for every 23 group members.

BARCELONA

The tourism levy for Barcelona applies to the Catalan region with revenue devoted to a tourism development fund, created to support policies aimed at the promotion, conservation and development of Catalan tourism infrastructure and activities. The levy is on a per person, per night basis levied at the following rates for a maximum of seven nights:

- 5* = €2.25
- 4* = €1.10
- Other establishments and facilities (including hotels, apartments, campsites, youth hostels, house for tourist use and mobile accommodation) = €0.65

VAT on hotel accommodation in Barcelona is charged at 10% compared to the national rate of 21%.

BRUSSELS

The tourism levy in Brussels is proportionate to the number of rooms available in each hotel and by category of hotel as classed by the Commissaire au Tourisme or the Commissariat General Flamand au Tourisme. The levies are levied per room, per night at the following rates:

- Unclassified – €2.15
- Category 1 or H1 €2.10
- Category 2 or H2 €2.90
- Category 3 or H3 €4.50
- Category 4 or H4 €7.15
- Category 5 or H5 €8.75

There are exemptions for housing assigned for social assistance. VAT on hotel accommodation in Belgium is charged at 6% compared to the standard rate of 21%.

VIENNA

Vienna's tourism levy is charged by the City of Vienna on all types of accommodation including hotels, B&Bs and private homes for let. The levy is set at: 3.2% of the accommodation fee (excluding VAT, breakfast and extras. The following exemptions are in place:

- Minors who are staying to attend school or vocational training or in hostels
- Students at Vienna university or technical schools
- People who take more than three months continuously stay in a private home

LISBON

A levy of €1 per person, per night up to a maximum of seven nights. Exemptions for children under 13 and those whose trip is for medical reasons during the period of hospitalisation + 1 additional night (and that of an accompanying party).

The revenue is put to a Tourism Development Fund: “to keep Lisbon a competitive and high quality destination: to strengthen tourism development in Lisbon; and to promote investment in tourism.”

VANCOUVER

Vancouver has a Municipal and Regional District Levy (MRDT) charged on the purchase price of accommodation, including any additional charges for extra beds, cots, cribs, linens and pets. Up to 3% is applied on behalf of municipalities, regional districts and eligible entities to sales of short-term accommodation provided in participating areas of British Columbia. Currently, all participating areas charge MRDT of 2 per cent except for the City of Vancouver which charges 3 per cent. The MRDT is charged in participating areas to raise revenue primarily for tourism marketing, programs and projects.

Provincial Sales Levy (PST) is 8% on accommodation.

NEW YORK

New York City and New York State impose multiple levies that apply to ‘transient occupancy or tourist use’.

- New York City hotel room occupancy levy = 5.875% of the room rate.
- New York City hotel Unit Fee = \$2 per room per night for rooms above \$40 a night.
- New York State Javits Convention Center fund = \$1.50 per room per night.

Sales levies on accommodation also apply at 8.875% comprised of:

- New York State Sales levy 4%
- New York City sales levy 4.5%
- MCTD (Metropolitan Commuter Transportation Mobility Levy) 0.375%

Proposed Edinburgh Tourism Levy

3.4 City of Edinburgh Council is also considering a tourism levy, although the Scottish Government have stated previously that there are no plans to make such an

order⁷. We understand that Edinburgh is currently considering it under its developing City Deal⁸.

⁷ <http://www.edinburghnews.scotsman.com/news/politics/government-rules-out-bed-tax-on-edinburgh-tourists-1-3592054>

⁸ <http://www.edinburghnews.scotsman.com/our-region/edinburgh/poll-should-edinburgh-have-a-tourist-tax-1-4343839>

4 LEGAL ISSUES

4.1 A Council only has the power to collect levies in the form of Council Levy and rates. Before a local authority can collect other levies, Scottish ministers would have to make an order allowing this power.

Power to advance well-being

4.2 There is a general power to advance well-being under section 20 of the Local Government (Scotland) Act 2003 (“the 2003 Act”). The power to advance well-being is a wide power which enables a local authority to do anything which it considers is likely to promote or improve the well-being of its area and/or persons within that area (whether in whole or in part). The power is intended to be used flexibly. It includes the power to incur expenditure, enter into agreements, facilitate or co-ordinate the activities of any person, or provide staff, goods, materials, facilities, services or property to any person.

4.3 However, the following limitation on the exercise of the power apply (section 22 of the 2003 Act):

- it does not enable a local authority to do anything for the purpose of enabling the authority to raise money by levying or imposing any form of levy or charge, by borrowing or otherwise;

4.4 Consultation with the Council’s Legal and Democratic Services indicate that they do not see the use of the Power to advance well-being as an appropriate tool for the Council to introduce a levy. Without support from Scottish Ministers, they do not see any other way to introduce a levy.

Support from Scottish Ministers to Legislate

4.5 The necessary support from Scottish Ministers would need to be in one of two forms. One would be in the form of the Scottish government making a new law through primary legislation.

Primary Legislation

4.6 Primary legislation can take a while to get through, as it is subject to additional scrutiny and consultation periods. The longest part of the process may be encouraging Scottish Parliament to make the law. Once persuaded, the law then needs to be drafted before going through various stages of scrutiny and consultation.

Secondary Legislation

4.7 There is an alternative way for the Scottish Ministers to legislate with secondary legislation. Under section 57(1) of the Local Government (Scotland) Act 2003, Scottish Ministers have the power to make an order to “amend, repeal, revoke

or disapply” any enactment to which the section applies to. This applies to “any enactment which the Scottish Ministers consider prevents local authorities from exercising their power under section 20(1)” (the power to advance well-being).

4.8 Therefore, the easiest way for Scottish Ministers to vary the legislation would be to repeal or amend section 22 (the limit on local authorities to raise money by a levy or levy other than Council Levy and rates). If Scottish Ministers can be persuaded to do, they would have to lay down a Scottish Statutory Instrument (SSI), which would need to be approved by the Scottish Parliament.

4.9 If the law was amended by Ministers, it would need to be specific enough to include organisations such as Air BnB, and not limited to just hotels, guest houses and B&Bs. Any law would have to be carefully worded to include them, as they would certainly not be volunteering to be included.

4.10 In terms of time taken it is difficult to estimate how long the legal process could take. Once persuaded, the law then needs to be drafted before going through various stages of scrutiny and consultation which could take a matter of months⁹.

5 COSTS

Administering Tourism Levies: Experience from abroad

5.1 Officers contacted The Hague and Alberta for information on how they administer their tourism levies. In both cases a tourism levy is collected on a range of accommodation including hotels, hostel, lodging house, boarding house, bed and breakfast and in The Hague campsites.

5.2 In both cases the levy is collected by the accommodation providers who are responsible for collecting the levy and transferring it to the municipality.

5.3 In The Hague tourist levies are paid once every three months to the Municipality while in Alberta they are paid monthly for large establishments and for smaller establishments every three months.

5.4 In both Alberta and The Hague accommodation providers that are liable for the levy are required to register with the municipality. In Alberta providers can pay

⁹ <http://www.parliament.scot/visitandlearn/Education/18641.aspx>

online but in The Hague this is not yet possible and a paper instruction form is sent to providers every three months.

5.5 In terms of enforcing that the correct amount is paid, Alberta Tourism Levy is administered on a self-assessing basis. However, registrants are required to maintain proper records and the tourism levy administering body does reserve the right to conduct financial audits of returns filed. The Hague checks the returns with the website of the provider and compares it with previous data and other information relating to bookings. In the case of big discrepancies the accommodation provider is asked to provide an explanation.

5.6 The Hague estimates that it costs 0.75 FTE (around £18,000 per annum) of an employee to administer their tourism levy while Alberta cited confidentiality and wouldn't provide figures for it.

How to administer a Tourism Levy in Aberdeen

5.7 If a scheme materialised in Aberdeen, accommodation providers would be required to register with the Council and would be responsible for collecting the levy and transferring it to the Council. They would be required to maintain appropriate records of rooms occupied and the amount of levy paid.

5.8 At a certain frequency, accommodation providers would be required to make their tourism levy payment, and for simplicity this would be done electronically into a tourism levy body account.

5.9 To ensure compliance, we anticipate the following information would be required:

- the accommodation providers that are liable for the tourism levy
- the number of rooms occupied during the period for payment

5.10 The Council will have information on the following with which to validate the returns:

- information on current and historic hotel occupancy rates within the City.
- current bookings information within the City and from the website of accommodation providers.
- historic return data from accommodation providers.
- returns from other accommodation providers within the City.

5.11 In the case of discrepancies the accommodation provider would have to provide a reason to the authority. Further, the tourism levy administering body would reserve the right to conduct financial audits of returns and obtain access to accommodation providers' occupancy rates information in the same way as assessors have access to this when assessing rateable values of hotels. This would be included in any legal process.

5.12 On the basis of the experience of The Hague we estimate it would cost 0.75 FTE (around £18,000 per annum) of an employee to administer the tourism levy for Aberdeen. We would discuss the detail of administering such a scheme with officers from the Council's finance service if this is to be pursued further.

6 BENEFITS

6.1 This section looks at the amount of revenue that a tourism levy might generate. Two options for revenue generation have been considered. Considering the variation of rates and mechanisms from Section 3 above, a preferred option for a Scheme in Aberdeen suggests a flat rate tourism levy of £1 a night for every room occupied.

Option 2 is a 1.5% tourism levy surcharge on the cost of the occupied room. Both options produce around £2m a year with slight variations depending on whether the accommodation provider includes just hotels or also includes guest houses, B&Bs, camping and Air BnB.

A flat rate of £1 a night is preferred for its simplicity and transparency.

6.2 The full set of revenues from the levy for is provided in the table in table 3 with the assumptions underlying the figures that underlie the revenues for each type of accommodation also presented.

Hotels

6.3 LJ Research provides data on average hotel room prices and occupancy rates in Aberdeen. An average cost of £65.38 and a 66.67% occupancy rate has been assumed based upon recent performance in the sector. Based on our estimate of the current number of hotel rooms in the City, plus planned rooms in the pipeline that have started construction, a total number of hotel rooms currently available and in the pipeline has been calculated.

Guest Houses/B&B, Camping and Youth hostels

6.4 ONS provide details of businesses that are guest houses, B&Bs, campsites and youth hostels in the city. This includes the number of employees in each business from which the number of available rooms has been estimated¹⁰. The average cost per room has been estimated from a search on booking.com for each accommodation category and the occupancy rate is from 2015 Visit Scotland occupancy data for Aberdeen and Grampian.

6.5 Camping and youth hostels are likely to be price sensitive and not direct competitors to hotels. There are relative few of these in Aberdeen.

Air BNB/Self-Catering

6.6 This is a difficult sector to regulate and assess its size and the scale of revenue that could be obtained from any tourism levy. From a search of available rental properties in Aberdeen on the Air BnB website there were 171 such rental options available and approximately 250 rooms available in the city which has been assumed as the available room supply. 2015 Visit Scotland data suggests an average occupancy rate of around 47% in self-catering properties and this has been assumed for Air BnB properties. An examination of available rooms on Air BnB suggests an average rental price of around £50 a night per room.

6.7 However, many accommodation providers that rent their property in such a way do not use the Air BnB website but use other home rental websites and there is some evidence that professional landlords are using these websites to avoid levies and evade planning laws¹¹.

6.8 Visit Scotland estimated that there may have been 458,000 tourist nights in 2015 in Aberdeen and Grampian which could translate into around 800 self-catered rooms available in the City.

6.9 Due to the uncertainty of the size of the sector we have presented it as a range of 250-800 rooms but this estimate should be treated with caution and there is some uncertainty around the scale of any tourism levy we could collect from it.

The effect on demand of increasing the cost of tourism

6.10 International tourism demand is influenced by a range of different factors including: population, income, prices in the host country, substitute prices in competing destination, tastes and habits, marketing, and one-off events. At its simplest, a tourism levy would be expected to increase the price of visitor accommodation and therefore at the margin reduce demand, other things being equal. The sensitivity of demand to changes in price, commonly referred to as the price elasticity of demand, is therefore a key factor in the decision whether to introduce a tourism levy.

6.11 There is little available evidence on Aberdeen-specific price elasticities of demand for tourism. Fluctuations in the exchange rate can be considered a proxy for price changes. Some more detailed research on price elasticities of demand exists at

¹¹ <http://economia.icaew.com/news/january-2016/airbnb-landlords-accused-of-tax-evasion>

a national level. In a report for the CBI, Durbarry and Sinclair (2000)¹² specify an econometric (gravity) model to assess the sensitivity of tourism demand in the UK to changes in prices, exchange rates and expenditure. Considering both the price of tourism and the exchange rate as separate variables, they suggest that an increase in the relative price level or an appreciation of sterling by 1% decreases tourists' expenditure by 0.6% and 0.5% respectively. However, they argue that tourists are more concerned with the effective price of tourism, which takes into account the price level and the purchasing power of the tourist together. Using the effective price variable they find a value of around unity. This implies that holding other variables constant, an increase of 1% in effective prices in the UK relative to the origin country would lead to a decrease in tourism expenditure in the UK of around 1%. This suggests that tourism expenditure is sensitive to price changes and results in a significant loss in revenue from tourism.

6.12 In contrast, research by the University of Nottingham (Blake and Cortes-Jimenez, 2007) for DCMS¹³ found an average price elasticity of demand of -0.61. This suggests that UK tourism is less sensitive to price changes than implied by these other studies with a 1% increase in price produces only a 0.61% fall in demand.

6.13 Demand for hotel rooms in Aberdeen has historically been driven by business from the oil and gas industry. This demand is likely to be price insensitive and resilient. Leisure tourism is more likely to be sensitive to price increases but we envisage even for this group only a very small if any decrease in demand as a result of a modest £1 tourism levy for example.

6.14 The tourism levy should be considered in the context of the fall in the value of Sterling since the EU referendum vote in 2016 and its potential impact on tourists to the UK and Aberdeen.

The value of Sterling and increased demand

6.15 The value of Sterling has fallen significantly against the Euro and the Dollar since the EU referendum in June 2016. This would have the effect of making it cheaper to visit Aberdeen than would otherwise have been the case. Indeed there is some evidence for this with ONS figures showing an "unparalleled" rush of tourists from the US and Canada as the pound plunged in value against the dollar, with the numbers of North American visitors increasing by 36% in the third quarter of 2016, in

¹² Durbarry and Sinclair (2000) "Tourism taxation in the UK"

¹³ Blake, A. and Cortes-Jimenez (2007) 'The Drivers of Tourism Demand in the UK' Christel DeHaan Tourism and Travel Research Institute, University of Nottingham for Department for Culture, Media and Sport.

a year-on-year comparison, and their total expenditure by 57%. Further, the fall in the value of Sterling should decrease demand for domestic tourists to holiday abroad potentially increasing demand domestically from domestic tourists.

6.16 Taking these factors into account we have assumed no change to demand as a result of the tourism levy.

Revenue Benefits from attracting additional events

6.17 A tourism levy could be used to support the attraction of additional events to Aberdeen. Attracting the right event to the city will generate additional footfall, and associated spend in the wider economy. For example, existing events already deliver additional visitors to the city and wider region. With additional financial resources from a tourism levy, bigger events, in terms of economic impact, could be attracted.

Recommendation

6.18 A flat rate of £1 a night is preferred for its simplicity and transparency. We recommend including hotels, B&Bs and guest houses in the scope of the tourism levy, which could generate revenues of around £1.7m a year.

6.19 However, we recommend that camping and youth hostels are not included in the scope of a tourism levy. Camping and youth hostels are likely to be price sensitive and not direct competitors to other forms of accommodation. There are relative few of these in Aberdeen.

6.19 The Air BnB sector is difficult to regulate and assess its size and the scale of revenue that could be obtained from any tourism levy. It could be substantial and a close competitor to hotels and guest houses. We recommend it should be included, but further consideration on how this could be achieved, including in any legal drafting and enforcement.

Table 3: Costed Revenues from a Tourism Levy

Accommodation Type	Number of Rooms	Occupancy Rate	Average Cost	Revenue from £1 Per Occupied Room	Revenue from 1.5% of Occupied Room Cost
Current Hotel Provision	6,414	66.7%	£65.38	£1,560,583.93	£1,530,464.66
New Hotels Currently Under Construction	325	66.7%	£65.38	£79,122.88	£77,595.80
Guest Houses / B&B	210	39.0%	£55.00	£29,893.50	£24,662.14
Camping (berths)	40	25.0%	£25.00	£3,650.00	£1,368.75
Youth Hostels (beds)	50	45.0%	£16.50	£8,212.50	£2,032.59
Air BnB/Self Catering	250 - 800	47.0%	£50.00	£42,887.50-£137,240	£32,165.63-£102,930
Total	7,289-7,839		-	£1,724,350-£1,818,703	£1,668,290-£1,739,054

In addition to hotels currently under construction there are a number of hotels that have had detailed planning consent granted as of 2016 which have a further 1,295 rooms planned.

Example Calculation:

Current Hotel Provision plus Hotels in Pipeline Revenues for preferred option:

$$\begin{aligned}
 &= \text{Number of rooms} * \text{Occupancy Rate} * 365 \text{ days} * \text{Levy (£1 an occupied room)} \\
 &= 7,989 * 66.7\% * 365 * £1 = £1,944,962
 \end{aligned}$$