

## ABERDEEN CITY COUNCIL

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COMMITTEE	Finance, Policy and Resources
DATE	9 <sup>th</sup> March 2017
DIRECTOR	Bernadette Marjoram
TITLE OF REPORT	Tourism Levy
REPORT NUMBER	CHI/17/018
CHECKLIST COMPLETED	Yes

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### 1. PURPOSE OF REPORT

The overall objective of the report is to provide Elected Members with an analysis of options for how a tourism levy could operate and the costs and benefits of a scheme.

### 2. RECOMMENDATION(S)

It is recommended that Committee:

- a) Notes that the analysis provided in Appendix 1 of this report.
- b) Notes that primary or secondary legislation would be required by the Scottish Parliament to implement a scheme and instructs the Chief Executive to write to the Cabinet Secretary for Culture, Tourism and External Affairs to seek legislation to introduce a scheme as part of Empowering City Government framework.
- c) Notes the estimated revenues of implementing a tourism levy.
- d) Notes simplest way of administering a tourism levy and the estimated cost of doing so.

### 3. FINANCIAL IMPLICATIONS

The financial implications for the Council could be restricted to the administration of a scheme. Based on comparator analysis, we estimate the cost to the Council of administering the levy is unlikely to exceed more than 0.75 of an administrative employee (around £18,000 per annum).

### 4. BACKGROUND/MAIN ISSUES

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.

The argument 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.

Since then, officers have been exploring this concept with other cities in the Scottish Cities Alliance, and with city and regional stakeholders. In August 2016, the Council noted the Empowering Scottish Cities – Empowering City Government analysis and agreed it would provide a framework within which further discussions are progressed. The Council instructed officers to assess the implications on the Council's finances and the economy of Aberdeen if additional powers (including a tourism levy) were pursued by the Council.

At the Council's Finance, Policy & Resources Committee in December 2016, officers were instructed to undertake further analysis of one of these, the costs and benefits of a tourism levy.

This analysis is provided in Appendix 1.

**Purpose:**

The purpose of a levy would be to generate a sustainable revenue stream that could 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
- d. Cultural development.

**Legislation:**

The report also considers legal issues around whether the Council has the power to introduce a tourism levy and what legislation could be required. The report finds that without support from Scottish Ministers, Aberdeen City Council cannot introduce a tourism levy. This would be required in the form of either primary or secondary legislation to enable Aberdeen Council to set such a levy.

**Methodology:**

Officers adopted the following approach to the analysis:

- Comparator research - compares how tourism levies are implemented in a number of other cities
- Consultation with internal and external stakeholders
- Analysis of the costs and benefits of introducing a tourism levy in Aberdeen.

**Costs:**

The report finds the simplest method of administering a tourism levy is to make accommodation providers responsible for collecting the levy and transferring it to the Council. Based upon the experience in The Hague, the cost of administering the levy is unlikely to exceed more than 0.75 of an administrative employee (around £18,000 per annum).

**Benefits:**

The report considers the revenue benefits of introducing a levy depending on the scope of the accommodation subject to any levy and the size of the levy. The report considers a range of accommodation options included in the levy and the different options around the size of the levy. The report finds that a flat rate levy of £1 a night on hotels, guest houses and B&Bs will generate around £1.7m a year of revenues.

The full set of costed option is in the table overpage.

## 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
<b>Current Hotel Provision</b>	6,414	66.7%	£65.38	£1,560,583.93	£1,530,464.66
<b>New Hotels Currently Under Construction</b>	325	66.7%	£65.38	£79,122.88	£77,595.80
<b>Guest Houses / B&amp;B</b>	210	39.0%	£55.00	£29,893.50	£24,662.14
<b>Camping (berths)</b>	40	25.0%	£25.00	£3,650.00	£1,368.75
<b>Youth Hostels (beds)</b>	50	45.0%	£16.50	£8,212.50	£2,032.59
<b>Air BnB/Self Catering</b>	250 - 800	47.0%	£50.00	£42,887.50-£137,240	£32,165.63-£102,930
<b>Total</b>	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.

## 5. CONSULTATION

Officers coordinated the drafting of the response with colleagues at:

- Aberdeen City and Shire Hotel Association
- Aberdeen and Grampian Chamber of Commerce
- Legal and Democratic Services, Aberdeen City Council
- Finance, Aberdeen City Council

Key issues for hotels at this stage include:

- 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).

## 6. IMPACT

This report estimates the costs and benefits of a tourism levy, whether it is legally possible for the Council to implement a levy and advises how to proceed if the Committee wants to adopt a tourism levy. It has no direct equality impact on the Council itself. However, depending on the detail of any future tourism levy including its scope, there could be a number of impacts that would be analysed at that point.

### **Improving Customer Experience –**

Increased investment in the development of the tourism sector could improve the experience of both business and leisure tourists as well as benefits to the range of tourism stakeholders.

### **Improving Staff Experience –**

N/A

### **Improving our use of Resources –**

If a tourism levy was implemented, and the proceeds were ring-fenced for investment in the sector, it could provide additional resource for promoting Aberdeen's tourism offer, and in support of the tourism objectives in the Regional Economic Strategy.

### **Corporate -**

Tourism is a key sector in the regional economic strategy and a tourism levy is a way of providing a sustainable revenue stream for investment in the sector and the wider economic development of the city, complementing investment in new tourism infrastructure such as the new arena and conference centre, Aberdeen Harbour Expansion and Aberdeen Airport Expansion.

### **Public –**

The report is of interest to the public in terms of the potential economic benefits that any tourism levy could bring to the city through increased investment in the development of the tourism sector.

## 7. MANAGEMENT OF RISK

- There is some uncertainty as to the cost of administering the scheme to ensure accommodation providers are fully compliant and are reporting levies correctly. 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.

## 8 BACKGROUND PAPERS

- Council Committee 17 August 2016 "Additional Powers"
- Finance Policy and Resources Committee 07 December 2016 "Events Strategy Plan"

## 9 REPORT AUTHOR DETAILS

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