

Visitor Levy (Scotland) Bill: Island Communities Impact Assessment (ICIA)

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Step one – Develop a clear understanding of your objectives

What are the objectives of the policy, strategy or service?

As part of the agreement of the 2019-20 Draft Budget, the Scottish Government committed to consult on the principles of a visitor levy (VL) and introduce legislation to permit local authorities to introduce such a levy if they consider it appropriate. This commitment was part of a package of measures focusing on local tax reforms and local fiscal empowerment. A public consultation was held from September to December 2019, with a consultation analysis report published in March 2020. Work was then paused during the pandemic, until the 2022/23 Scottish budget committed the Scottish Government to resuming work on the Visitor Levy proposal. This culminated in the announcement that a Visitor Levy Bill would be part of the 2022-23 Programme for Government¹.

The Bill will give local authorities discretionary power to apply a levy on persons staying overnight in commercially let accommodation. It will be for individual local authorities to decide whether or not to apply a VL for their areas, whether that would apply in all or part of the region, and at what rate it would be set.

We are committed to an ambitious New Deal for local government, including to develop and agree on a fiscal framework for local government. The Bill's discretionary power for local authorities to introduce a VL is an important part of this work. This is a long term ask from local government and will provide Councils with a discretionary power they can use if they believe it to be appropriate, after consultation with relevant communities and businesses.

We also share an ambitious vision with the tourism industry (set out in Scotland Outlook 2030, Scotland's national tourism strategy) for Scotland to be the world leader in tourism by 2030. Giving local councils the power to introduce a levy is one tool that can provide the additional resources to meet that vision.

Do you need to consult?

Yes, engagement events were carried out in 2018 as part of a national conversation on the principles of a tourist tax, and a formal public consultation was carried out in 2019 with on-going stakeholder engagement since then.

How are islands identified for the purpose of the policy, strategy or service?

The islands have not been specifically identified for the policy as the Bill provides a discretionary powers for local authorities to use, if they wish to do so. It is not a national scheme. The provisions in the Bill will not differentially affect those who live on the islands compared to those who live on the mainland, as the Bill provides local

¹ [A stronger and more resilient Scotland: the Programme for Government 2022 to 2023](#)

authorities with a discretionary power to use if they so wish to. Local authorities will have to consider the impact of any VL scheme on island communities in their area and beyond.

What are the intended impacts/outcomes and how do these potentially differ in the islands?

The Bill supports the advancement of a number of Scotland's existing policies². The Bill's core aims are:

- To provide local authorities with a discretionary power to introduce a local visitor levy on overnight accommodation in all or part of their area, should they wish to do so
- To provide a broad national framework for the establishment of local visitor levies by local authorities, including the basis of the charge, extent, and enforcement

The Bill will contribute to the following of Scotland's National Outcomes:

- Communities: we live in communities that are inclusive, empowered, resilient and safe
- Economy: we have a globally competitive, entrepreneurial, inclusive and sustainable economy;
- Environment: we value, enjoy, protect and enhance our environment
- Fair Work and Business: we have thriving and innovative businesses, with quality jobs and fair work for everyone

As a discretionary power for local authorities to use if they wish, the Bill's impacts and outcomes on island communities will depend on decisions made at local authority level on the design and implementation of a VL scheme. In choosing to enact a VL scheme in their area, a local authority will be subject to existing statutory requirements, including those required under the Islands (Scotland) Act 2018.

Is the policy, strategy or service new?

Yes - this is a new policy.

Step Two – Gather your data and identify your stakeholders

What data is available about the current situation in the islands?

There is some data available on the size and composition of the accommodation industry on the island authorities. Table 1 sets out the number of accommodation premises on the Valuation Roll as at 1 January 2023 for each island authority, and for Scotland as a whole.

² The background and policy context, as well as specific provisions, are outlined at length in the Policy Memorandum, which this impact assessment should be read alongside.

Table 1 - Number of Self-catering, Hotels and Guest houses/B&Bs premises paying non-domestic rates by Scottish local authority, as at 1st January 2023

Local Authority	Self-Catering	Hotels	Guesthouses and B&Bs
Eilean Siar	750	25	25
Orkney Islands	455	35	20
Shetland Islands	250	20	15
Scotland	18,275	2,360	1,405

Source: Assessor Valuation Roll as at 1st January 2023, includes all properties with a description of 'self-catering', 'hotel', 'guest house' and 'bed and breakfast accommodation'. Figures rounded to nearest 5, may not sum due to rounding.

In terms of accommodation types, all three island authorities have a higher proportion of self-catering properties in comparison with Scotland as a whole (82.9%). Correspondingly, the proportion of hotels, guesthouses and B&Bs is lower in the island authorities.

Table 2 below provides a breakdown of registered businesses and employment within Scotland's accommodation sector by island local authority

Table 2 – Number of businesses (2022) and employment (2021) in Scotland's accommodation sector, by island local authority

Local authority	No. of businesses (IDBR 2022)	% of all businesses in local authority	Employment (BRES 2021)	% of all employment in local authority
Eilean Siar	55	4.4%	400	2.5%
Orkney Islands	30	1.9%	350	2.7%
Shetland Islands	25	1.5%	175	1.0%
Scotland	2,925	1.7%	44,000	1.7%

Sources: ONS, Inter-Departmental Business Register (March 2022), Business Register Employment Survey 2021, Scottish Annual Business Statistics 2020

Notes: Each business is counted once in each area it operates in. The sum of the area business counts does not equal the overall Scotland total because each business is only counted once in the Scotland figures.

Note that these statistics do not capture very small businesses, typically those with a turnover under the threshold for paying Value Added Tax (VAT) on sales (£85,000 in 2022-23) and are not registered for PAYE.

For data on accommodation providers not on the NDR roll, there is some information available via the Small Accommodation Providers paying Council Tax Fund (SAP-CTF), which covered eligible businesses that did not pay non-domestic rates but paid council tax. Table 3 sets out the number of awards paid from the fund to these businesses in 2021, by island authority.

Table 3 - Number of awards paid out through SAP-CTF, Waves 1, 2 and 3 (awards paid out in 2021 based on businesses trading on 2 November 2020)

Local Authority	Number of awards
Eilean Siar	64
Orkney Islands	32
Shetland Islands	18
Scotland	1,491

Source: Scottish Government, [Coronavirus \(COVID-19\): Business Support Funding experimental statistics – Payment dates by Scheme from August 2020 to June 2021](#), April 2022

In terms of visitor numbers and spend, while there are no figures available for specific islands, figures from VisitScotland’s most recent Visitor Survey show that the Highlands and Islands region saw 2.3 million visitors between 2017 and 2019. This accounted for a fifth of both total overnight visitors and of visitor spend in Scotland.

Cruise ships

Cruise tourism in Scotland is heavily concentrated by geography and is of significant importance to many island communities. According to VisitScotland research, the Scottish cruise industry supports more than 800 employees, generating an estimated £23 million GVA for Scotland’s economy. The Highlands and Islands³ account for the largest share of Scotland’s cruise tourism. In 2019, the Highlands and Islands accounted for almost three quarters of Scotland’s total cruise calls, and 61% of cruise passengers, largely at Kirkwall, Lerwick and Invergordon. Cruise tourism in the Highlands and Islands region was also estimated to be equivalent to 15.39% of overnight tourism volume and 2.54% of all tourism volume, 2.74% of overnight expenditure and 1.50% of all tourism expenditure in Scotland.

There are notably significant variations within this region for island authorities. The report estimates that cruise tourism in the island communities (Outer Hebrides, Orkney and Shetland) is relative to 57.68% of overnight tourism and 6.84% of all tourism each year, although the associated expenditure from cruise tourism is much smaller. In comparison, for the Isle of Skye cruise tourism accounted for just 16% of overnight and day tourism.

The report noted that the interplay between all the actors in the cruise tourism ecosystem is multifaceted and differs from port to port and from island to mainland destination. The relationship between ports was also observed, including competition between mainland and island ports – with the former tending to see island destinations as having a cachet for cruise lines that makes them more likely to call (for example at Stornoway rather than Ullapool.)

Examples of existing visitor levies in island communities

Tourist or accommodation taxes are common across Europe and include island communities. For example, Spain’s Balearic islands have operated a levy on overnight stays in tourist accommodations since 2016. The revenue from this levy is

³ The Highlands and Islands region is comprised of the Highland, Moray, Orkney Islands, Shetland Islands and Eilean Siar local authorities.

used to compensate the territorial and environmental impact of tourism on Mallorca, Menorca, Ibiza and Formentera.⁴

Malta has operated an “environmental contribution” levy on overnight accommodation stays since 2016, the revenue from which is used to support and upgrade the local infrastructure in touristic areas around the Maltese Islands.⁵

Engagement with tourist industry stakeholders has revealed that specific types of tourism (for example, cruise ship tourism) are more prevalent, and that for some islands this makes up a significant portion of their tourist economy.

Do you need to consult?

Yes. Although the policy is to provide a discretionary power to local authorities to use if they so wish, we believe it would be beneficial to consult with island communities to ensure that any issues or concerns are identified for the purposes of providing national guidance to local authorities on establishing a VL scheme.

How does any existing data differ between islands?

We have set out above the data we have on island authorities. In terms of accommodation types, the proportion of self-catering properties in Eilean Siar is slightly higher than in Orkney or Shetland (93.8% compared to 89.2% and 87.7% respectively). Correspondingly, the proportion of hotels is higher in Shetland (7%) and Orkney (6.9%) than in Eilean Siar (3.1%). The proportion of guest houses is smallest in Eilean Siar (3.1%), and largest in Shetland (5.3%).

In terms of the size of the accommodation industry in island authorities, Eilean Siar has a notably higher percentage of accommodation businesses as a proportion of the total number of businesses in its area (4.4%), compared to the national average of 1.7%.

Are there any existing design features or mitigations in place?

The Bill itself will have no differential impact on islands communities compared to the mainland. It will give all local authorities, including island authorities, the power to introduce a visitor levy in all or part of their area, but the use of those powers is at the discretion of a local authority should it be appropriate to local circumstance. For mainland local authorities that include island communities in its jurisdiction, the Bill will ensure that a VL can apply to all or parts of an area. This gives local authorities the flexibility on the geographical extent of a VL scheme, which will be of benefit when considering differential impacts on any island communities.

⁴ [Government of the Balearic Islands – Tax for Sustainable Tourism](#)

⁵ [Visit Malta – Environmental Contribution charge](#)

Step Three – Consultation

Who do you need to consult with?

Local authorities, businesses and communities.

How will you carry out your consultation and in what timescales?

A public consultation on the Principles of A Local Discretionary Transient Visitor Levy⁶ opened on 9 September 2019. It ran for a 12 week period, closing on 2 December 2019. The consultation invited views on the principles for enabling local authorities to choose to apply a levy on visitors staying overnight. It also invited views on the balance between national consistency and local autonomy, as well as a number of other related issues.

This pre-legislation consultation provided an opportunity to engage with and hear the views of island communities about the proposals for a transient visitor levy (or tourist tax). A total of 1701 responses to the consultation were submitted, although 1,202 of these related to a campaign on rent and did not answer the consultation questions. The 499 substantive responses included responses from:

- local authorities incorporating island communities;
- organisations from islands communities or representing islands interests; and
- responses from individuals living on islands.

Consultation responses from organisations based on, or involved with, the Scottish islands provide an indication of island interests and views. These ranged from individual accommodation providers to local authorities and representative bodies. An independent analysis of all consultation responses was published in March 2020, along with individual responses where permission was given to do so⁷.

A series of public information sessions were held during the consultation period providing an opportunity for anyone with an interest to share views and discuss the proposals. Six of the 15 sessions were held on the islands of Mull, Skye, Orkney and Shetland.

These responses and insights received from this process have informed the key findings and conclusions in this assessment.

What questions will you ask when considering how to address island realities?

For our engagement sessions with island communities, we asked questions on the following issues:

- Local discretion and community involvement

⁶ [Scottish Government - Consultation on The Principles of a Local Discretionary Transient Visitor Levy or Tourist Tax](#)

⁷ [Report on the findings from the Scottish Government's consultation on the Principles of a Local Discretionary Transient Visitor Levy or Tourist Tax](#)

- Use of funds
- Impact on island tourism
- Exemptions
- Inclusion of cruise ships

What information has already been gathered through consultations and what concerns have been raised previously by island communities?

The following information is taken from our engagement sessions with island authorities in 2019.

Orkney Islands, 20 November 2019 – 13 attendees including councillors, local authority officials, destination organisations, community council representatives and accommodation providers. The following issues were raised:

- Exemptions – islanders should be exempt from any levy.
- Administration – a VL on overnight stays may be too great a burden to collect from some businesses.
- Use of revenues – the local government settlement could be compromised if the fiscal power was created but not applied in Orkney.

Shetland Islands, 20 November 2019 – 9 attendees over two sessions including accommodation providers, port authority, individuals, amenity trust. The following issues were raised:

- Island proofing – the cost of travel to islands is already high without an additional levy being applied. Suggested there could be other ways to raise revenue for tourism investment as visitors to islands can be more easily identified due to limited means of access (cruise ships, ferries or flights).
- Visitor activity – a VL scheme should be simple enough to allow for different patterns that reflect the seasonality of tourism on the islands.
- Basis of the charge – a percentage of accommodation costs would be the most straightforward approach as it avoids additional reporting requirements.
- Exemptions – island residents In particular have to stay in overnight accommodation to access medical treatment, or if transport is disrupted (which may also affect workers to the islands). Concerns on applying a VL to medical professionals sent to an island, or residents having to travel to events or competitions (for example, sports teams.)
- Revenues – how much could be raised by a levy and how this would be used.
- Impact on competition – it was suggested, although there was not agreement on this, that the application of a VL could impact on visitor numbers and competition between local authorities. If cruise ships were considered as part of a VL, then there was a risk that ships may stop visiting if they have to pay a VL on top of port fees.

Isle of Skye, 12 November 2019 – 11 attending over two sessions including business, destination management organisation, accommodation providers, industry representatives, individuals and media. The following issues were raised:

- Local circumstances – the majority of visitors to Skye are day visitors and the proposals should recognise this. It was also stated that there had been a

change in visitor patterns (shorter stays and more day visitors). A large proportion of GDP in Skye comes from tourism, although it is seasonal.

- Local democracy – important that decisions around a visitor levy involve business and community interests to reflect local circumstances.
- Administration – costs to accommodation providers (particularly for small businesses) for additional record keeping, VAT, credit card and booking platform charges. Additional cost implications will affect micro-businesses in particular.
- Revenues – stressed the importance of revenues being spent in the local area. Local business and communities must have a say in how these are spent.
- Rates – suggested that a national rate was necessary to ensure fairness across Scotland and to avoid the risk of hospitality businesses investing in parts of the country where there is no levy or a low levy.

Isle of Mull, 30 October 2019 – 16 attendees including business and business representatives, HIE, local authority, community and individuals. The following issues were raised:

- Revenues – Importance of ring-fencing the money, although there were concerns over how the council might use the income. Participatory budgeting should be applied.
- Basis of the charge – it was suggested that for islands such as Mull, it would be preferable to charge a levy to visitors via the ferry operator, though not all were in agreement on this. The Bill should not preclude such alternative means of collection, or the application of the levy more widely (for example, including day visitors and campervans.)
- Exemptions – suggested exemptions for locals and for Scottish nationals, notably for those persons staying overnight in other regions for medical purposes or because of transport issues such as ferry disruption.
- VAT – concerns over how the levy would interact with VAT requirements.
- Islands impact – it was considered important that proposals be assessed for the impact on the islands.

Is your consultation robust and meaningful and sufficient to comply with the Section 7 duty?

Yes.

Step Four – Assessment

Does your assessment identify any unique impacts on island communities?

The consultation and engagement described above raised a range of matters in respect of islands locations, and highlighted the views of residents or accommodation providers about the proposals to enable local authorities to apply a VL if they consider it appropriate to local circumstance. This section sets out those challenges and opportunities identified and concerns raised.

Island Circumstance

The power to introduce a VL and the potential for the levy to generate a new income stream to support islands communities were welcomed by many. However, recognising that a VL should reflect local circumstance there was a common view that it was important that any proposals are 'island proofed' and the impact on islands assessed.

The geographical remoteness of islands can generate a number of particular challenges:

- island residents may need to travel to the mainland to access services, for example to attend medical appointments, and this may necessitate overnight stays on the mainland.
- medical or other professionals travel to islands to provide essential services which may not otherwise be available, and may have to stay overnight to deliver those services.
- transport disruption or timetables can further compel overnight stays outwith the control of the individual.
- the cost of visiting some islands is different from the costs if tourists stay only on the mainland, for example higher transport costs to reach an island, and the higher cost of operating a business may impact on visitor spend or be passed on to visitors.

Visitor Economy

Some islands in particular, for example Iona or Cumbrae, experience a higher level of day visitors. A high number of day visitors impacts on infrastructure in the islands, and it was suggested that the proposals to apply a VL to overnight stays does not help manage or alleviate the issues arising from this.

There was recognition that a levy on day visitors could be difficult to administer. Some respondents thought there was a risk of discouraging day trips and of penalising local businesses. However, islands have limited points of entry, and it was suggested that it is therefore more possible to identify and charge day visitors arriving on an island (e.g. by ferry). Difficulties in defining a day visit were also raised in the consultation responses and the lack of a way to monitor day visitors, alongside any potential impact on local residents.

Accommodation providers on islands were observed to be mainly small and micro business, and collecting a VL could place a particular compliance burden on them.

Use of Revenues from Visitor Levy

Where an island is part of a larger local authority area, it was highlighted that the circumstance and need of the island might be different compared to other parts of the local authority on the mainland.

It was suggested that revenues raised from a VL should be spent in the area in which they are raised and reflect local circumstance and need. Furthermore, island communities should be involved in strategic decisions around spend, with decisions about the use of revenue devolved to the lowest level possible.

Views were also expressed that a smaller scale of visitor economy may mean the level of revenue generated may not justify the costs of introducing and administering a VL.

Does your assessment identify any potential barriers or wider impacts?

In choosing to implement a VL scheme, a local authority may create potential barriers for persons on island communities who require overnight accommodation in another area for the purposes of accessing public services.

How will you address these?

Informed by the comments received, the Bill requires that a local authority considering a VL should assess the impact of its proposals and engage with communities, relevant business and tourist organisations on the proposals and use of revenue. Island communities would be a relevant and necessary consideration within this process for some local authorities. This would be in addition to any existing statutory duties on a local authority to have regard to communities and groups when developing or delivering a policy.

The Bill also provides flexibility to reflect different circumstances, for example, to apply the levy in all or part of an area or not at all, or to provide local exemptions to paying a VL. It also ensures a local authority is accountable to local communities for the decision it takes about a VL, for example by way of annual reports and regular review.

Consideration has also been given on whether to create national exemptions to a VL scheme, on the issues raised by island communities. In particular, a national exemption for persons using overnight accommodation for the purposes of accessing medical treatment has been considered. Given the discretionary nature of the power and our commitment to local flexibility and accountability, the Bill will not include national exemptions. Rather, local authorities will be able to set exemptions to the levy, following consultation with local communities and businesses, giving councils the ability to tailor a VL to the specific needs of the local area.

We are committed to develop implementation guidance on the VL with local government and industry stakeholders, which will aim to provide a non-statutory framework on aspects of a VL scheme, including the designation of and best practice on local exemptions. The Bill will also provide Scottish Ministers with a power to designate national exemptions through subordinate legislation, should they wish to do so.

Step 5 – Recommendation

A full Islands Community Impact Assessment is NOT required.

In preparing the ICIA, I have formed an opinion that our policy, strategy or service is NOT likely to have an effect on an island community which is significantly different from its effect on other communities (including other island communities). The VL is a discretionary power for local authorities to use if they so wish. In doing so, a local authority will have to comply with its duties under the Islands (Scotland) Act 2018. Proposed national guidance, developed in partnership with local government and the tourism industry, will also assist local authorities in considering the needs of island communities in the design of a VL scheme.

Step Six – Making adjustments to your work

Should delivery mechanisms/mitigations vary in different communities?

The power to create a VL will be discretionary to local authorities. A local authority, which chooses to enact a VL in their area, will be able to set the rate and extent of the levy, set any local exemptions and will have administrative independence of the levy, in line with its existing statutory financial and accounting practices.

To support local authorities in exercising their new powers, we are committed to developing national guidance jointly with Local Government and tourist industry stakeholders.

Do you need to consult with island communities in respect of mechanisms or mitigations?

The Bill will create a statutory requirement for a local authority to consult with local communities and businesses prior to the introduction of a LV. A local authority will also be required to give significant notice and publish its plan on how it planned to use any funds raised through the levy.

Additionally, in choosing to enact a VL scheme in their area, a local authority will be subject to existing statutory requirements to consult and have regard to communities when preparing a policy. In considering the use of these new powers, under the Islands (Scotland) Act 2018, a local authority will have to comply with its duty to have regard to island communities (section 7) and where relevant undertake an island communities impact assessment should a proposed levy be identified as having a significantly different effect on an island community compared with other communities (section 8).

Have island circumstances been factored into the evaluation process?

Yes – we have consulted and engaged with island authorities and communities to ensure island circumstances have been factored in.

Have any island-specific indicators/targets been identified that require monitoring?

No, this is a discretionary power for local authorities to use if they wish to do so. Any local authority considering the use of a VL will be required to comply with its duty under the Islands (Scotland) Act 2018 – where a local authority identifies any island-specific indicators then they may wish to monitor these.

How will outcomes be measured on the islands?

The Bill does not place reporting requirements on local authorities relating to island-specific indicators, however a local authority will have to publicly report on the performance of the VL in relation to its objectives, alongside the amount of money raised and how the net proceeds of the VL have been used.

How has the policy, strategy or service affected island communities?

The Bill provides a discretionary power to local authorities and does not directly affect island communities. In choosing to implement a VL scheme in all or part of their area, a local authority will need to have regard as to how such a scheme affects island communities, in line with its duties under the 2018 Act.

How will lessons learned in this ICIA inform future policy making and service delivery?

Local authorities who wish to implement a VL scheme in their area will need to have regard to their island communities. In doing so, we encourage those authorities to use this ICIA to help support their work in island-proofing a VL scheme.

Sign off

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Date Completed: 14 February 2023

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