



**ORKNEY**  
ISLANDS COUNCIL

**Item: 10**

**Policy and Resources Committee: 23 September 2025.**

**Orkney Visitor Levy.**

**Report by Director of Enterprise and Resources.**

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## **1. Overview**

- 1.1. On 20 September 2024, the Visitor Levy (Scotland) Act 2024 came into force, granting discretionary power to local authorities to introduce a levy on overnight stays in specified types of accommodation within all or part of their area. The levy excludes cruise ship passengers and other day visitors, wild campers and motorhomes not staying in registered campsites. For clarity, this report refers to the charge as the overnight visitor levy.
- 1.2. On 24 September 2024, when considering the discretionary power accorded to local authorities to introduce an overnight visitor levy, the Policy and Resources Committee recommended:
  - That investigation be undertaken to ascertain the feasibility of introducing a visitor levy scheme in Orkney, including the following activity:
    - Formal engagement with local communities, tourism businesses and organisations and any other stakeholder likely to be affected by a visitor levy scheme.
    - A cost-benefit analysis, measuring the benefits of introducing a scheme versus the associated costs.
    - A seminar for Elected Members to present findings from the formal stakeholder engagement and cost-benefit analysis.
- 1.3. Following a competitive procurement process, the Council, in partnership with Shetland Islands Council and Comhairle nan Eilean Siar, appointed Urban Foresight to investigate the feasibility of an overnight visitor levy for each island authority.
- 1.4. The feasibility investigations found a strong opposition to an overnight visitor levy within the bounds of the Visitor Levy (Scotland) Act 2024, with stakeholders citing fairness concerns and risks to local businesses and the tourism economy. While there is support in principle for a levy that funds infrastructure and environmental conservation, stakeholders favour simpler, fairer models targeting high-impact visitors. Cruise ship and point of entry levies are preferred, with the latter offering

broader coverage, greater revenue potential and clearer mechanisms for exempting residents.

- 1.5. A cost-benefit analysis showed marginal returns for an overnight visitor levy, with viability sensitive to exemption rates, seasonal variation and accommodation attrition.
- 1.6. Findings of the feasibility investigations are provided in the Orkney Visitor Levy Report, attached as Appendix 1.

## **2. Recommendations**

- 2.1. It is recommended that members of the Committee:
  - i. Agree that the Council should not progress implementation of an overnight visitor levy at this time.
  - ii. Agree that engagement with the Scottish Government and other relevant stakeholders should continue on alternative tourism levy models appropriate to an island context.

## **3. Legislative context**

- 3.1. On 20 September 2024, the Visitor Levy (Scotland) Act 2024 came into force, granting discretionary power to local authorities to introduce a visitor levy for the purpose of generating revenue to develop, support or sustain “facilities and services which are substantially for or used by persons visiting the scheme area for leisure or business purposes (or both)”.
- 3.2. The legislation applies to overnight stays in specified types of accommodation within all or part of a local authority area, but excludes cruise ship and other day visitors, wild campers and motorhomes not staying in registered camping sites.
- 3.3. The Scottish Government recently consulted on a proposed cruise ship levy for local authorities. As part of that consultation, views were also sought on whether local authorities with islands should have the power to introduce a ‘point of entry’ levy – the preferred option island authorities have consistently advocated since early discussions on a visitor levy. The consultation closed on 30 May 2025, but no timeline has been confirmed for a decision on enabling legislation.
- 3.4. In June 2025, the Deputy First Minister confirmed that the Scottish Government has no plans to introduce a motorhome levy any time soon.

## **4. Overnight visitor levy feasibility investigations**

- 4.1. Following a competitive procurement process, Shetland Islands Council, Comhairle nan Eilean Siar and the Council jointly commissioned Urban Foresight to assess the feasibility of an overnight visitor levy for each island authority. The study included stakeholder engagement, a cost-benefit analysis, and culminated in a members' seminar on 25 August 2025 to present the findings.
- 4.2. Stakeholder engagement took place in March and April 2025 and revealed there is widespread opposition to an overnight visitor levy within the bounds of the Visitor Levy (Scotland) Act 2024 among residents and local businesses. The main objections to the overnight visitor levy centre around its unfairness – targeting overnight visitors while excluding high-impact segments who collectively account for more than half of all visitors – and the threat it would pose to the viability of accommodation providers and competitiveness of Orkney as a tourism destination.
- 4.3. There is support for the principle of a levy that funds long-term investment in infrastructure and environmental conservation, provided it is fair, simple to administer, and responsive to local needs. Stakeholders favour a model that targets high-impact visitor segments, adapts to seasonal tourism patterns, and respects local circumstances through appropriate exemptions.
- 4.4. Alternative levy models – particularly a cruise ship levy and a point of entry levy – are strongly supported. Both are considered more practical to implement than the overnight visitor levy and offer clearer mechanisms for exempting residents. The point of entry levy is widely regarded as the fairest approach as it applies to a broader range of visitors, including high-impact segments such as cruise passengers. By charging all visitors at entry, it offers the greatest revenue potential while minimising administrative complexity and cost. However, the viability of these alternatives depends on whether the Scottish Government progresses enabling legislation and on the design of that legislation.
- 4.5. The cost-benefit analysis concluded that implementing an overnight visitor levy of at least 5% across Orkney – either year-round or seasonally (April to October) – could deliver marginal net benefits. Both models showed positive returns, with the seasonal levy slightly outperforming the year-round option in terms of cost-benefit ratio (1.56 vs. 1.36), despite generating a lower net present value and annual net revenue. These margins, however, are relatively modest and may be considered borderline in the context of public investment, particularly given the long-term financial risks and administrative complexity involved. The analysis is sensitive to key variables such as exemption rates, seasonal fluctuations, and accommodation attrition, all of which could erode net revenue. Further modelling and sensitivity

testing would be required to determine whether the projected benefits are sufficient to justify implementation under varying conditions.

- 4.6. Full details of the stakeholder engagement and cost benefit analysis are provided in the Orkney Visitor Levy Report, attached as Appendix 1.

## 5. Island authority partners

- 5.1. On 17 June 2025, Comhairle nan Eilean Siar's Sustainable Development Committee approved a recommendation to "pause the further development of an Outer Hebrides Visitor Levy Scheme until all tourism levy options for local authorities can be assessed".
- 5.2. On 15 September 2025, Shetland Islands Council's Policy and Resources Committee will decide whether to progress any further investigation of an overnight visitor levy or instead explore alternative options.

### For Further Information please contact:

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### Implications of Report

1. **Financial** - There are no financial implications arising directly from this report. On 24 September 2024, the Policy and Resources Committee recommended that provision of up to £20,000 be made from the Council's Crown Estate Fund for external consultant fees relating to feasibility activity. Consultants were jointly engaged by the Council, Shetland Islands Council and Comhairle nan Eilean Siar at a cost of £35,000. Orkney's share was £11,667. The Council's overall expenditure, not including officer time, for the feasibility investigations was £11,833.
2. **Legal** - There are no legal implications arising directly from this report.
3. **Corporate Governance** - There are no corporate governance implications arising directly from this report.
4. **Human Resources** - Should the recommendations of this report be approved, the engagement activity referenced in paragraph 2.1.ii will be undertaken by existing officer resource within the Sustainable Tourism team.
5. **Equalities** - An Equality Impact Assessment is not required at this stage.
6. **Island Communities Impact** - An Island Communities Impact Assessment is not required at this stage.
7. **Links to Council Plan** - The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan Strategic priorities:



- ☒ Growing our economy.
  - ☐ Strengthening our communities.
  - ☐ Developing our infrastructure.
  - ☐ Transforming our Council.
8. **Links to Local Outcomes Improvement Plan** - The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
    - ☐ Cost of Living.
    - ☒ Sustainable Development.
    - ☐ Local Equality.
    - ☐ Improving Population Health.
  9. **Environmental and Climate Risk** - There are no environmental and climate risk implications arising directly from this report.
  10. **Risk** - The potential benefits of implementing an overnight visitor levy in Orkney are currently outweighed by the associated risks, as outlined in the Orkney Visitor Levy Report, attached as Appendix 1.
  11. **Procurement** - There are no procurement implications arising directly from this report.
  12. **Health and Safety** - There are no health and safety implications arising directly from this report.
  13. **Property and Assets** - There are no property and assets implications arising directly from this report.
  14. **Information Technology** - There are no information technology implications arising directly from this report.
  15. **Cost of Living** - There are no cost-of-living implications arising directly from this report.

### List of Background Papers

[Orkney Islands Council Visitor Levy Feasibility Report, Policy and Resources Committee 24 September 2024.](#)

[Visitor Levy \(Scotland\) Act 2024.](#)

[Visitor Levy Statutory Guidance.](#)

[Scottish Government Cruise Ship Levy Consultation.](#)

[Orkney Islands Council Response to Scottish Government Cruise Ship Levy Consultation.](#)

### Appendix

Appendix 1 – Orkney Visitor Levy Report.



# Orkney Visitor Levy Report

Investigating the feasibility of a levy  
on overnight accommodation

PREPARED FOR



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ISLANDS COUNCIL

# Executive summary

Urban Foresight were commissioned by Orkney Islands Council to investigate the feasibility of an overnight accommodation visitor levy.

## Background

The Orkney Isles are renowned for their stunning landscapes, rich history, and vibrant cultural heritage. These islands attract a significant number of visitors each year, contributing substantially to the local economy. However, tourism also brings challenges, such as increased pressure on infrastructure and the need for enhanced services to support both residents and visitors.

The commissioning of this report follows the enactment of the Visitor Levy (Scotland) Act 2024, which grants local authorities the discretionary power to introduce a visitor levy on overnight stays. This legislation was introduced in response to the growing pressures of tourism on local areas and the need for additional funding to support tourism-related infrastructure and services.

The Act allows local authorities to apply a percentage-based charge on overnight accommodation including, hotels; hostels; guesthouses; bed and breakfast accommodation; self-catering accommodation; caravan parks; accommodation in a vehicle, or onboard a vessel, which is permanently or predominantly situated in one place; and any other place at which a room or area is offered by the occupier for residential purposes otherwise than as a visitor's only or usual place of residence.

The Act does not cover cruise ships, day trippers, motorhomes not staying on a registered site, or campers 'wild camping'.

## Methodology

Urban Foresight took a mixed methods approach to investigate the feasibility of a visitor levy in Orkney. This included an economic assessment and research into the attitudes towards a potential visitor levy on overnight accommodation amongst key stakeholders, local residents, visitors, and businesses. The research included three main phases:

- **Desk Review:** This included analysis of primary and secondary data to understand Orkney's tourism economy and review and analysis of case studies of visitor levies implemented elsewhere in the United Kingdom and internationally.
- **Engagement:** An extensive community and stakeholder engagement phase was undertaken, which included a survey, online and in-person public engagement sessions, 1-1 interviews, a roundtable, and email correspondence.
- **Cost Benefit Analysis:** A detailed cost benefit analysis of various visitor levy scenarios was undertaken to model the potential costs and benefits of implementing a visitor levy.



## Findings

### Desk based review: Structure of Orkney's tourism economy and the implications for design of a visitor levy

Orkney's tourism economy is a vital part of the islands' prosperity, with visitors contributing an estimated £114 million per annum. The sector is highly seasonal and reliant on ferry and air travel, with most visitors arriving between April and October. Cruise ship tourism represents a growing share of total visitors but would not be covered under the current visitor levy legislation.

Accommodation is dominated by small and micro businesses, with flats, chalets, guest houses, and B&Bs making up the bulk of provision. There are over 4,000 bedspaces, but many accommodation types, including wild camping and motorhomes staying on unregistered sites, would not be included under the current legislation.

Occupancy rates and prices vary significantly by season and type, which should inform the design of any levy—especially the option of a seasonal charge. The 2024 Orkney Islands Visitor Survey found that the average length of a stay in 2024 was 5.2 nights. However, the average length of stay for visitors who engaged with this research was between 6-10 days, suggesting that a cap on the number of nights that the levy applies to should be carefully considered in order to maintain longer stays on the islands.

### Stakeholders' views on the implementation of the visitor levy ↴

Overall, the findings from the stakeholder engagement indicate that there is currently widespread opposition among the residents and local businesses to a visitor levy on overnight accommodation.

During the engagement, the strategic purpose of a visitor levy was recognised in terms of the opportunity to secure sustainable investment in tourism against a challenging public finance landscape. However, stakeholders emphasised that any revenue should be ring-fenced and administered transparently, as is a statutory requirement of the legislation. Additionally, among stakeholders there was a strong preference for a flat-rate point-of-entry levy and cruise levy over the accommodation based visitor levy in its current form.

The majority of businesses who engaged in the research anticipated that a visitor levy would have a negative impact on local businesses and the wider economy of Orkney. The main concern from businesses, especially small and independently run accommodation providers, was the continued viability of their businesses in light of the increased administrative burden and business costs expected to result from such a visitor levy scheme.

Some operators close to retirement suggested they would potentially exit the market, and some providers expected non-compliance to be high if there is low enforcement capacity in Orkney Islands Council (OIC).

It is expected that OIC would have to invest resources in 'hand holding' many accommodation providers to set up and administer the levy and OIC officers have estimated that approximately 20% of accommodation providers would need such support.

Some providers were concerned about being pushed over the VAT threshold and the financial considerations and implications that come with that.

Although 34% of non-VAT registered businesses responding to the Destination Orkney survey suggested that they would be pushed over the VAT threshold at a 3% levy charge, average annual revenue data for Orkney from Airdna shows the rolling 12 month average revenue in May 2025 was £23,000. Total taxable turnover of more than £90,000 is the current VAT threshold.

It is a possibility that businesses close to the VAT threshold would continue to use the strategy of closing earlier in the season to avoid paying VAT and reducing their net revenue by 20%, resulting in a lowering of availability of beds, and reducing the tourism receipts to Orkney accommodation providers overall. Businesses already paying VAT may be further disadvantaged as they may have to raise their prices even higher than the non-VAT paying businesses.

There was also concern from stakeholders that a levy would dissuade some tourists from visiting Orkney and that Orkney would be less competitive against other destinations without a levy in place. The sensitivity of price to demand in Orkney is unknown, and further research, disaggregated by island, should be carried out for the most accurate visitor levy impact assessment.

Residents raised concerns about the impact of a visitor levy on those undertaking inter-island travel within Orkney, including for medical related visits and other essential travel. There was general agreement that residents would expect to be exempt from any visitor levy.

### Cost Benefit Analysis (CBA)↴

The results from the CBA estimated that both a year-round visitor levy and seasonal levy are expected to generate positive net benefits at a 5% levy or greater over a 10-year implementation period.

The CBA estimated that a year-round levy at 5% would generate £3,880,740.52 over 10 years, with a cost benefit ratio (CBR) of 1.36. A seasonal levy at 5% was estimated to generate slightly less at £3,773,094.99 over 10 years, however, with lower associated administration costs for the council and businesses, it had a greater CBR of 1.56. This indicates that for every £1 spent, the visitor levy is likely to generate £1.36 in benefits for a year-round levy and £1.56 in benefits for a seasonal levy. At 3%, both a year round and seasonal levy had a negative CBR, indicating the return would be less than the costs of implementing the scheme.

A range of sensitivity analyses were undertaken as part of the CBA and indicated that the return on investment for a 5% and above levy may be significantly affected by the inclusion of any exemptions to the levy, such as exemptions for local residents or medical travel, increases in costs, and decreases in the number of rooms available, presenting significant risk.

In the public engagement sessions and survey results, it was clearly highlighted that there is an expectation that Orkney residents should be exempt from paying a levy. Participants also

indicated that those seeking medical treatment and children and young people should also be exempt. For the year-round visitor levy, if 30% of visitors are exempt at the 5% levy rate, the costs of a levy scheme become greater than the revenue generated. For the seasonal 5% levy, if 40% of visitors are exempt, then the scheme does not generate net benefits. Full analysis should be conducted to understand how many people would be exempt from paying a levy under any proposed exemptions, as this can significantly affect the profitability of the scheme.

Similarly, for the year-round levy, a 5% visitor levy scheme is not profitable if there is a 20% decrease in the number of rooms. In addition, it must be noted that due to the development and planning period, there is significant capital at risk before a proposed visitor levy scheme would generate income, or become profitable.

A point of entry levy, which would also include cruise ship arrivals, was supported by the majority of survey respondents, as it included all visitors and was felt to be fairer. Orkney's unique geographical position, where all travellers to the isles come by either ferry or airplane, is suited to a point of entry levy, which could be more easily administered and would remove some of the major drawbacks of an overnight accommodation levy, particularly around the administrative burden on businesses.

This study was not able to disaggregate the CBA to individual island level, and a comprehensive island impact assessment will be legally required at island level to ensure that appropriate concessions are made where necessary to protect the interests of island communities. The Islands (Scotland) Act 2018 legally requires that the islands are not negatively impacted economically from the introduction and implementation of a visitor levy.

### [OIC cost savings through joint implementation of the visitor levy with Shetland and Western Isles Councils ↘](#)

Cost savings for joint implementation of the levy were explored with Orkney, Shetland and Western Isles Council officers, but no significant opportunities were identified. Flat fees per Council are charged to access the Improvement Service digital levy platform to collect the levy, and a joint designated levy officer would be insufficient for the volume of support that would be required for accommodation providers across the three local authority areas.

### [OIC equalities duties under existing legislation ↘](#)

In implementing a visitor levy, Orkney Islands Council must comply with a range of equalities duties under existing legislation. Stakeholders expressed some concerns about inequalities arising from the use of levy revenue. For example, if levy revenues are invested primarily in high-traffic areas like Kirkwall, or at popular heritage sites, then less-visited outer islands or rural communities may see little benefit despite also experiencing pressures from tourism. In the same vein, communities asked how they could influence how funds are allocated so that inequalities are not exacerbated.

Stakeholders on the outer islands were worried that a levy would discourage people from visiting anywhere but the mainland, thus impacting their livelihood and the visitor economy of the outer isles. There was concern that if visitors have to pay more to visit Orkney, they will spend less overall when here, thus negatively impacting local businesses that are not accommodation

providers. Smaller accommodation providers also felt at a disadvantage to larger businesses who could likely absorb the cost of administration more easily.

### Risks to OIC of implementing a visitor levy ↘

Implementing a visitor levy in Orkney presents a range of political, economic, social, technological, legal, and environmental risks, as well as strategic and operational challenges.

Politically, the levy may face resistance from local businesses and require careful stakeholder management to gain and maintain public support. Economically, it could impact visitor numbers and spending, particularly if introduced without understanding price sensitivity, as well as impacting accommodation providers through increased business costs and reduced revenue.

Socially, the risk of uneven impact across communities and business types must be addressed through carefully considered impact assessments.

Technologically and administratively, the Council may face challenges in designing, implementing, and enforcing an efficient system for collection of the levy. Legally, the levy must comply with national legislation and local governance processes, while environmentally, it must align with climate and sustainability goals.

In addition, there are strategic risks if the levy fails to deliver visible benefits or undermines broader tourism goals, operational risks around staff capacity and compliance, and reputational risks if the levy is seen as burdensome or poorly communicated.

These risks highlight the importance of a carefully phased, transparent, and consultative approach, backed by further analysis and robust implementation planning, as is a statutory requirement of the legislation.

### Conclusion ↘

Whether the overnight accommodation visitor levy is viable or not depends on the design of the scheme.

Whilst a point of entry style levy received the most endorsement, a CBA of a point of entry levy was out of scope of this report. This only become a potential option mid-way through this commission, when, in February 2025, the Scottish Government issued a consultation on the Cruise Ship levy and included a question asking *“Do you believe local authorities with islands should be given the power to create a broader ‘point of entry’ levy for one or more islands in their area, if they wish to do so?”*.

It is recommended therefore that a CBA of the point of entry levy be undertaken to compare the results with the CBA carried out in this analysis. Furthermore, further analysis needs to take place on the number of people and geographies eligible for the different proposed exemptions in order to accurately predict the revenue OIC would receive overall.

Further research should also be undertaken on the sensitivity of price to demand to accurately estimate the impact of a levy on visitor numbers.

The visitor levy could generate a positive revenue return if set at 5% or greater on both the year round and seasonal basis. However, overall, a levy also risks unintended impacts on affordability, tourism distribution, and small business capacity. These trade-offs, alongside the legal and geographic flexibility allowed under the legislation, point to the need for a carefully tailored and

evidence-based approach—supported by further research on visitor behaviour, price sensitivity, and inter-island impacts.



# Contents

Executive summary .....	1
Background.....	1
Findings.....	2
Contents.....	7
Background.....	8
Introduction .....	10
1. Stakeholder engagement results.....	12
2. Advice, support, and information required to enable accommodation providers to collect and remit a levy.....	50
3. Cost Benefit Analysis (CBA).....	52
Findings.....	54
4. Conclusion.....	64
Appendix 1: Survey questions .....	67
Appendix 2 : Cost Benefit Analysis .....	71
Methodology .....	71
Costs.....	71
Benefits .....	83
Results and sensitivities.....	89
Appendix 3: Key informant stakeholders interviewed .....	104

# Background

This report explores the feasibility of introducing a visitor levy to support sustainable tourism and enhance the local economy in Orkney. The report presents the findings from background research, in-depth stakeholder engagement and a detailed cost-benefit analysis.

The commissioning of this report follows the enactment of the Visitor Levy (Scotland) Act 2024, which grants local authorities the discretionary power to introduce a visitor levy on overnight stays. This legislation was introduced in response to the growing pressures of tourism on local areas and the need for additional funding to support tourism-related infrastructure and services.

The Act allows local authorities to apply a percentage-based charge on various types of accommodation, including hotels; hostels; guesthouses; bed and breakfast accommodation; self-catering accommodation; caravan parks; accommodation in a vehicle, or onboard a vessel, which is permanently or predominantly situated in one place; and any other place at which a room or area is offered by the occupier for residential purposes otherwise than as a visitor's only or usual place of residence. The Act does not cover cruise ships, day trippers, motorhomes not staying in a registered site, or campers 'wild camping'.

The Orkney Islands are renowned for their stunning landscapes, rich history, and vibrant cultural heritage. The islands attract a significant number of visitors each year, contributing substantially to the local economy. In 2024, Orkney welcomed 173,037 visitors and over 200,000 cruise ship passengers. It was estimated that visitors contribute approximately £114M million to Orkney's economy per annum.

However, the arrival of tourism also brings challenges, such as increased pressure on infrastructure such as footpaths, roads and waste management, environmental degradation, and the need for enhanced services to support both residents and visitors.

An example of this can be seen at Orkney's Ring of Brodgar stone circle where the increasing volume of visitors in recent years and lack of toilet provision has led to undesirable toileting behaviour near the car park. The concern among local stakeholders reached national press and councillors debated over temporary toilet provision before agreement over a permanent solution of toilets at the Brodgar car park, although this is not due to be available until 2027 at the earliest.

The idea of a visitor levy has gained traction as a potential solution to these challenges. By implementing a levy on overnight stays, Orkney Islands Council could potentially generate additional funds to invest in tourism infrastructure, environmental conservation, and community services. This approach aligns with the broader goals of sustainable tourism, ensuring that the benefits of tourism are distributed equitably and that the natural and cultural assets of the islands are preserved for future generations.

Before deciding whether to introduce a statutory consultation on the visitor levy, Orkney Islands Council has commissioned this report to conduct a thorough investigation into the feasibility of

the scheme. This includes engaging with stakeholders to understand their views, assessing the potential economic and social impacts, and exploring the practicalities of implementing the levy.

# Introduction

The Orkney Visitor Levy Scheme Report has been commissioned by Orkney Islands Council to explore the feasibility of introducing a visitor levy on overnight accommodation within Orkney.

This initiative is driven by the need to address the pressures associated with high visitor numbers, which places a strain on local infrastructure, services, and the environment.

The scope of the report is as follows:

1. Carry out comprehensive stakeholder engagement (with people affected by the visitor levy scheme) to promote understanding and collect views to determine the viability of introducing a visitor levy and to inform the design of a scheme if progressed.
2. Explore what advice, support, and information may be required to enable accommodation providers to collect and remit a levy.
3. Investigate the positive and negative impacts of a visitor levy scheme; key visitor scheme design element; objectives of a visitor levy scheme; enquire into the principles of a potential cruise ship levy and/or motorhome levy as either supplementary or stand-alone policies and analyse risks.
4. Consider equalities duties and requirements of the Orkney Island Council (OIC) under existing legislation.
5. Detailed cost-benefit analysis to include:
  - a) Systematic evaluation of the potential costs, benefits and opportunities of a visitor levy, considering impacts on the visitor economy and island communities, to determine how the introduction and administration of a scheme may be feasible.
  - b) Analysis conducted in consideration of relevant provisions of the Act and Guidance.
  - c) consideration of social and economic factors emerging through stakeholder engagement activity.
  - d) Visitor economy research and development of specified methodology to support comprehensive analysis and robust forecasting.
  - e) Evaluation of (but not limited to) the following elements: costs (direct, indirect, intangible and opportunity), economic and social benefits and risks, implications of key scheme design elements (e.g., percentage rate of the levy, exemptions, scheme area), provision of forecasts for: expected revenue receipts, costs for the establishment of a visitor levy scheme, costs for the ongoing administration of a visitor levy scheme, net revenue scenarios, considering different percentage rates and exemptions.

- f) Identification of possible cost reductions for individual Islands authorities as well as potential savings achieved through joint implementation and administration of a visitor levy scheme by the Islands Authorities.

The report is set out as follows:

- **Section 1: Stakeholder Engagement and Consultation Results** - This section reviews the stakeholder engagement process, summarising the feedback and insights gathered during the consultation and addresses key visitor scheme design element, objectives of a visitor levy scheme (what the levy should be spent on), enquiry into the principles of a potential cruise ship levy and/or motorhome levy as either supplementary or stand-alone policies.
- **Section 2: Advice, Support, and Information** required to enable accommodation providers to collect and remit a levy.
- **Section 3: Cost-Benefit Analysis of the Visitor Levy** - A detailed cost-benefit analysis is presented, evaluating the financial implications of implementing the visitor levy.
- **Section 4: Conclusion** - Based on the stakeholder feedback and cost-benefit analysis, this section provides well-founded conclusions on the viability of introducing a visitor levy scheme in Orkney.

# 1. Stakeholder engagement results

## Survey

The following section details the results of the stakeholder survey. Each question has been given its own section and number and has been disaggregated and analysed to provide in-depth information and insight.

The survey branched out to give businesses the opportunity to answer more business specific questions about the feasibility of a visitor levy. The same opportunity was given to visitors to answer specific questions.

The flow of the analysis follows the branching of the survey. This section proceeds as follows:

- **General survey questions** (All respondents)
  - Question number 1 - 2.
- **Visitor survey questions** (Visitors only)
  - Question number 3 - 8.
- **Business survey questions** (Business only)
  - Question number 9 - 12.
- **General survey questions** (All respondents)
  - Question number 12 -19.

### General survey questions (All respondents)

#### 1/ Are you a:

Survey respondents were asked to identify whether they were a business, visitor, or resident.



In total, there were 1,004 responses that indicated they were either residents or businesses operating in the Orkney Islands, or visitors who had recently visited Orkney. 680 respondents

were residents, making up 68% the total respondents. 106 of the survey respondents were visitors, making up 11% of the total respondents.

Around 1 in 6 had also travelled to either Shetland or Western Isles during their most recent visit and 82% had stayed longer than a week.

8 additional respondents used the open text box and could not be placed in these three main categories as they were former residents who had now left Orkney but did not identify as a visitor.

The location of the businesses and their operational sector is disaggregated and explored in further detail in the business specific questions below.

2/ Where are you based?

All respondents were asked to identify where on the Orkney Isles they considered themselves based.

As shown in Figure 1, the vast majority of respondents, including both residents and businesses, (n=663) are based on the Orkney Mainland or linked South Isles. A further 60 respondents to the survey are based on the ferry-linked isles. Three respondents were based elsewhere in Orkney. The majority of businesses (n=43) and residents (n=620) answered that they were located on the Orkney Mainland and linked South Isles.

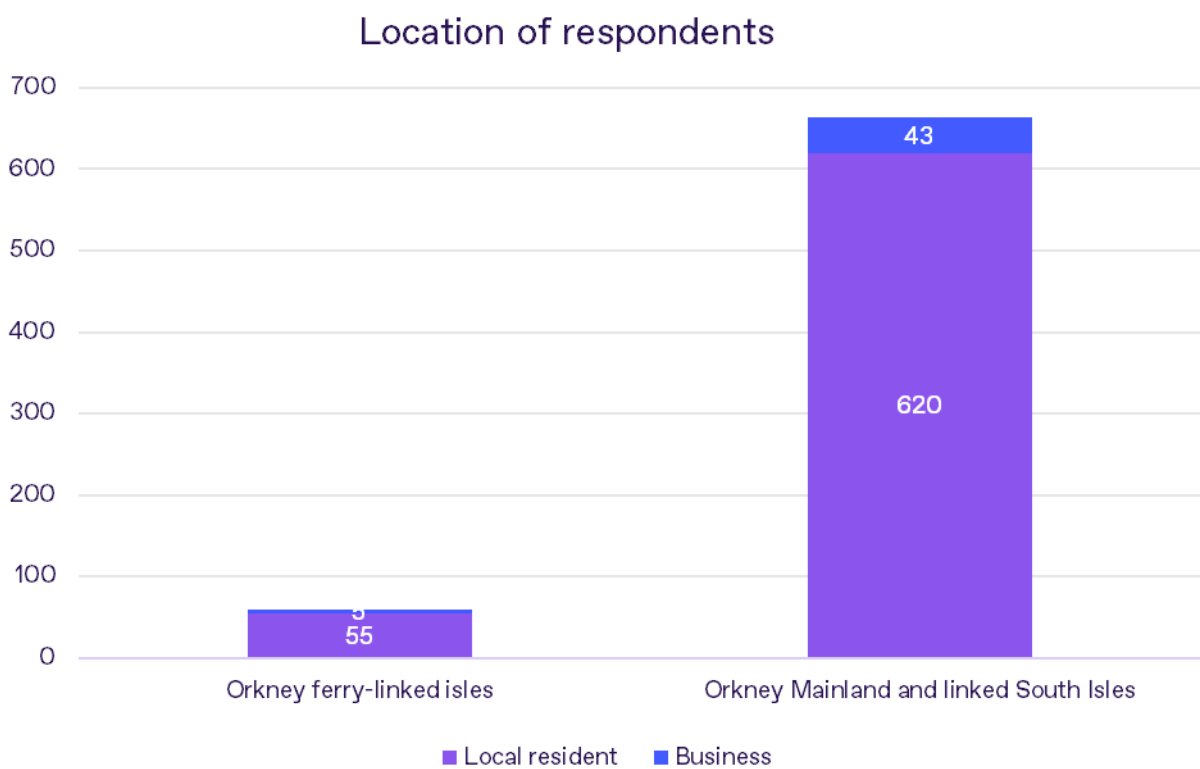


Figure 1: Location of respondents

Visitor-specific questions (Visitors only)

3/ Which of the following locations did you visit on your most recent trip?

Visitors were asked to identify where they had been on their trip, given options of Orkney, Shetland, and the Western Isles. The question allowed the respondent to select multiple answers.

Table 1: Which of the following locations did you visit on your trip?

Location(s)	Count	Percentage
Orkney	88	83%
Orkney and Shetland	9	9%
Orkney and Western Isles	7	7%
Orkney, Shetland, and the Western Isles	1	1%

The majority of respondents (n=88, 88%) had only visited Orkney during their trip, highlighting Orkney as the primary destination among the three island groups. A smaller proportion of visitors combined their trip to Orkney with travel to Shetland (n=9, 9%) or the Western Isles (n=7, 7%), while just one respondent reported visiting all three locations. This pattern suggests that while there is some crossover between the islands, most visitors to Orkney tend to focus their trip exclusively there rather than combining it with travel to other island groups.

#### 4/ How long did you stay?

This question was asked to gain a better understanding of how long visitors stay on average, and therefore help inform how long certain types of visitor levies might affect this group. This is represented in Figure 2 below. One respondent did not answer this question therefore, the total is one less than the number of visitors that responded. This then impacts the percentage of respondent numbers in Figure 3.



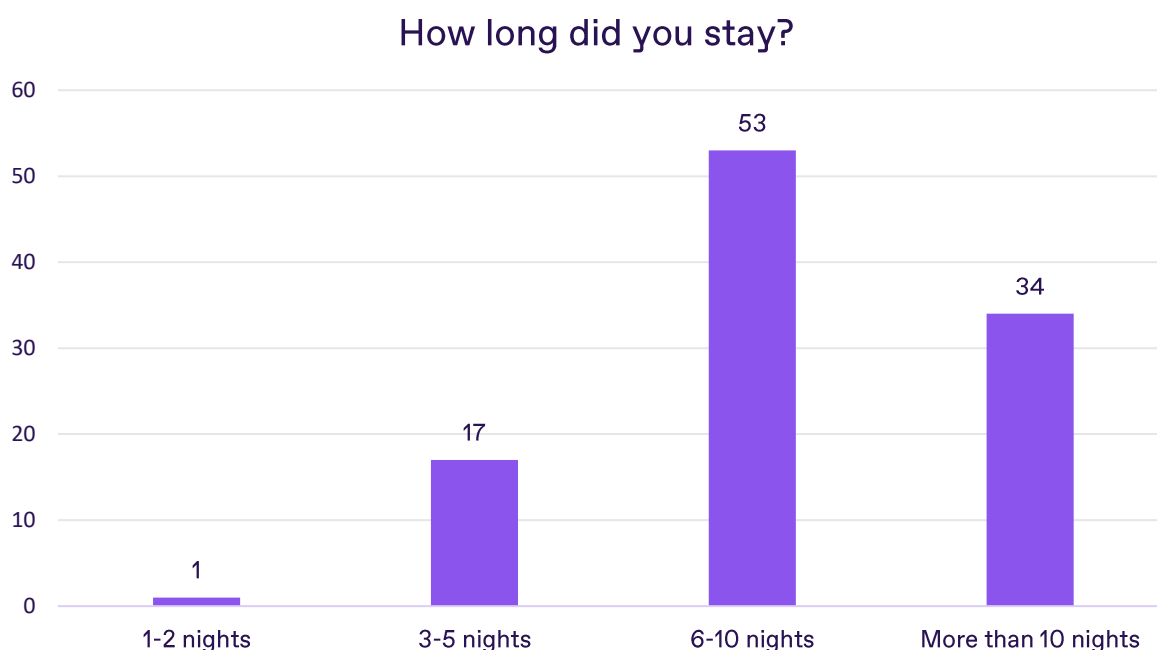


Figure 2: How long did you stay

How long did you stay	Percentage of respondents
1-2 nights	1%
3-5 nights	16%
6-10 nights	50%
More than 10 nights	32%

Figure 3: Length of stay as a percentage of visitors who answer the question

Figure 2 presents the overall length of stay among respondents. It shows that the most common length of stay was 6–10 nights, accounting for 50% of respondents, followed by more than 10 nights at 32%. Shorter stays were less common, with only 16% of visitors staying 3–5 nights and just 1% staying for 1–2 nights.

This indicates that the majority of visitors tend to stay for extended periods rather than making short visits, an important consideration for the design of the visitor levy. Specifically, per-night levies could accumulate to a significant amount for many visitors, which may require careful communication and policy design to avoid unintended impacts on longer-term stays.

Figure 4 shows a disaggregation of visit destination and visit length. This is followed by the data table (Table 2: Data table for disaggregated destination and visit length).

Figure 4: Disaggregated destination and visit length

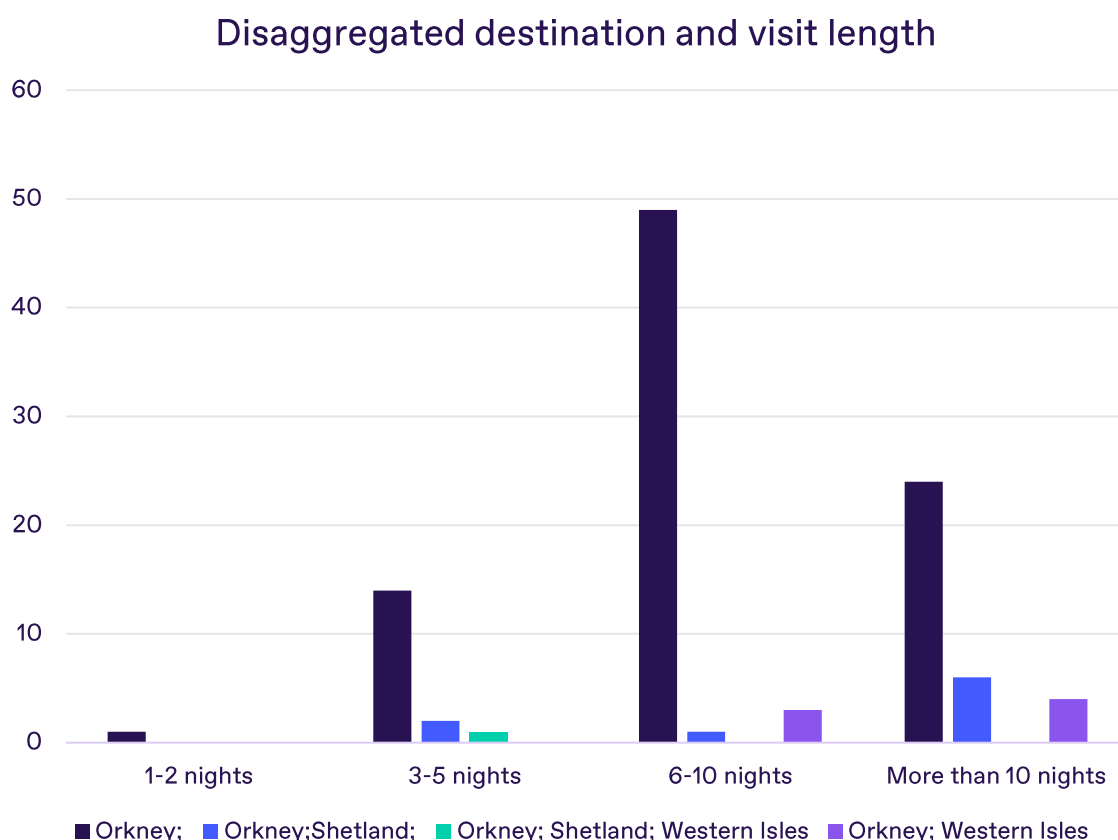


Table 2: Data table for disaggregated destination and visit length

	Orkney	Orkney, Shetland	Orkney, Shetland, Western Isles / Outer Hebrides	Orkney, Western Isles / Outer Hebrides
1-2 nights	1			
3-5 nights	14	2	1	
6-10 nights	49	1		3
More than 10 nights	24	6		4

This disaggregated view reveals some important patterns:

- Visitors who stayed in Orkney only predominantly stayed for 6–10 nights (n=49 respondents or 46%) or more than 10 nights (n=24 respondents or 23%).
- Those who visited both Orkney and the Western Isles also showed a tendency towards longer stays, with 3 (3%) respondents staying 6–10 nights and 4 (4%) staying more than 10 nights.
- Visitors combining Orkney and Shetland or visiting all three island groups tended to stay for slightly shorter periods, although sample sizes are small.
- Very short stays (1–2 nights) were extremely rare, with only one respondent reporting this, and only for Orkney alone.

These findings reinforce that multi-island trips are more often associated with slightly shorter stays compared to single-destination trips, but overall, visitors to Orkney and the surrounding islands generally commit to longer trips. This trend has implications for the design and projected revenue of a visitor levy, with longer stays meaning that cumulative costs to visitors could be more substantial.

## 5/ What was the main type of accommodation you used?

Visitors were asked what type of accommodation they mainly used during their trip. Understanding accommodation choices is important for assessing how different visitor groups might be impacted by a visitor levy, particularly where levy collection could be linked to accommodation providers.

Table 3: Type of accommodation stayed in

Type of accommodation	Count of respondents	Percentage
Bed and breakfast or guesthouse	10	9%
Campsite or caravan park	8	8%
Holiday home	1	1%
Hotel	4	4%
Hotels and self-catering	1	1%
Permitted motorhome overnight stops and campsites	1	1%
Self-catering (Airbnb, cottage, etc)	60	57%
Staying with friends or family	20	18%
Did not respond	1	1%
<b>Grand Total</b>	<b>106</b>	<b>100</b>

The data in Table 3 reflects the structure of the accommodation stock with 57% of respondents staying in options such as Airbnbs, cottages, or similar facilities. This suggests that a large proportion of visitors prefer flexible, independent stays rather than more traditional hospitality services.

The next most common choice was staying with friends or family (18%), followed by bed and breakfasts or guesthouses (9%) and campsites or caravan parks (8%). More formal hotel accommodation was relatively less popular, with only 4% staying primarily in hotels and another 1% using a combination of hotels and self-catering.

The relatively low number of hotel stays and higher concentration in self-catering options has important implications for levy design and collection. If levies are collected through accommodation providers, the focus would need to include a wide range of smaller-scale self-catering establishments, many of which may not operate like traditional hotels and could have limited administrative capacity.

Additionally, a significant minority of visitors (18%) were staying with friends or family, a group potentially outside the scope of any accommodation-based levy. This highlights that while accommodation levies could capture the majority of visitors, a small proportion would not be reached through accommodation-focused mechanisms alone.

Finally, while camping and motorhome usage was not dominant (8% at campsites and a small number using motorhome stops), it is still notable. If alternative overnight arrangements such as permitted motorhome stops are popular in the region, future strategies might need to account for levy collection beyond formal campsites, perhaps through motorhome permits or designated overnight stay fees.

Overall, the accommodation patterns suggest that levy mechanisms must be flexible and inclusive of a broad range of providers to be effective, and that additional mechanisms might be needed to address visitors who do not use commercial accommodation, such as a point of entry levy.

## 6/ How did you travel to Orkney, Shetland, or the Western Isles?

- 86 respondents used a ferry (81%).
- 19 used a plane (18%).
- 1 did not respond (1%).

## 7/ How did you hear about the destination(s)?

The top three most selected options were:

- Word of mouth: 35 respondents (33%).
- Social media: 15 respondents (14%).
- Family: 14 respondents (13%).
- Tourism organisation(s): 7 respondents (7%).

## 8/ How likely are you to visit again if a levy is introduced? Please provide the reason(s) for your answer.

Visitors responding to the survey were asked ‘How likely are you to visit again if a levy is introduced?’. 49% said that they would be ‘very likely’ to return regardless of the levy. However, a notable proportion expressed reluctance to revisit if a levy was introduced, stating they were either ‘very unlikely’ (n=6, 6%) or ‘unlikely’ (n=15, 14%) to return. These figures are represented in Table 4 below. One respondent did not answer this question.

Table 4: How likely are you to visit again if a levy is introduced?

Response	Count of respondents	Percentage
Don't know	7	7%
Neutral	13	12%
Somewhat likely	12	11%
Unlikely	15	14%
Very likely	52	49%
Very unlikely	6	6%
Blank	1	1%

Of those who were very likely to return, 29% stated that they had family in Orkney and so would continue to visit regardless of any levy, these responses were split between those that were happy to pay a potential levy and those that would visit in spite of the levy for family reasons but were not happy about the levy. For those visiting for non-family reasons, the key reasons were a belief their visit was worth a small price, or that visitors should contribute to the tourism infrastructure rather than just having it fall to residents.

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*“A visitor levy would be a small price for time spent in a place that brings us such joy.” - Visitor*

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*“If I want good tourist facilities, I should contribute, along with all visitors, including cruise ship visitors especially.” - Visitor*

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Those who were hesitant highlighted the already high costs associated with travelling to, staying in and spending on Orkney. Others suggested that it was seen as unfair, particularly as cruise and other types of visitors were excluded and would feel ‘unwelcoming’.

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*“It sends a fairly clear message that Orkney is closed for business...There are enough destinations that welcome tourism.” - Visitor*

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*“We’ve been coming to Orkney for 20 years and we in some ways feel part of the community - being asked to pay more on top of what is already a very expensive journey makes us a number not a guest.” - Visitor*

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## **Business-specific questions (Businesses only)**

The following questions were asked to the those who identified themselves as a business at the beginning of the survey.

### **9/ What type of business do you represent?**

210 respondents were businesses, making up 20% of the total respondents. The breakdown of business type is shown in Table 5.

- Accommodation providers were the most represented group of businesses at 55%.
- Tourism (e.g., tour operator, activity provider, visitor attraction) represented 11% of business respondents.
- Retail represented 6% of business respondents.
- 20% of business respondents did not answer this question.

Type of business	Count of respondents	Percentage
Accommodation	113	55%
Tourism (e.g. tour operator, activity provider, visitor attraction).	24	11%
Retail	13	6%
Transportation	5	2%
Business services	6	3%
Food and drink	2	1%
Other	5	2%
No answer	42	20%

Table 5: Type of business represented

## 10/ Where are you based?

We asked businesses to identify where they were based. Following the categories outlined above, the location and type of businesses can be disaggregated to create a clear map of business respondents. This exercise was undertaken for the top three most selected businesses because it allows for more detailed spatial analysis of where key economic activity is concentrated, helps identify any geographic clustering or service gaps, and supports targeted policy or levy design based on business density and distribution.

### → Accommodation

Table 6 shows the breakdown of accommodation business respondents by location. The right hand column shows representation of accommodation providers in a certain location as a percentage of the total number of accommodation providers which responded (For reference, n=113).

As the table shows, a strong majority of 71% of accommodation providers are from the mainland and linked South Isles. The next largest respondent group which gave an answer was accommodation providers on the Orkney ferry-linked isles at 8%.

This data helps contextualise any qualitative engagement results going forward with the rest of this analysis.

Table 6: Disaggregated location of accommodation providers

Location of respondents	Count of respondent	Percentage
Orkney ferry-linked isles	9	8%
Orkney Mainland and linked South Isles	80	71%
Shetland mainland	1	1%
No location given	23	20%

### → Tourism

Table 7 shows the breakdown of tourism business respondents by location. The right hand column shows representation of tourism providers in a certain location as a percentage of the total number of tourism providers which responded (For reference, n=24).

As the table shows, a strong majority of 79% of tourism providers are from the mainland and linked South Isles. The next largest respondent group was tourism providers on the Orkney ferry-linked isles at 13%.

This data helps contextualise any qualitative engagement results going forward with the rest of this analysis.

Table 7: Disaggregated location of tourism businesses

Location of respondents	Count of respondent	Percent
Orkney ferry-linked isles	3	13%
Orkney Mainland and linked South Isles	19	79%
No location given	2	8%

### → Retail

All retail respondents (n=13) were located on the Orkney mainland and linked South Isles.

This data helps contextualise any qualitative engagement results going forward with the rest of this analysis.

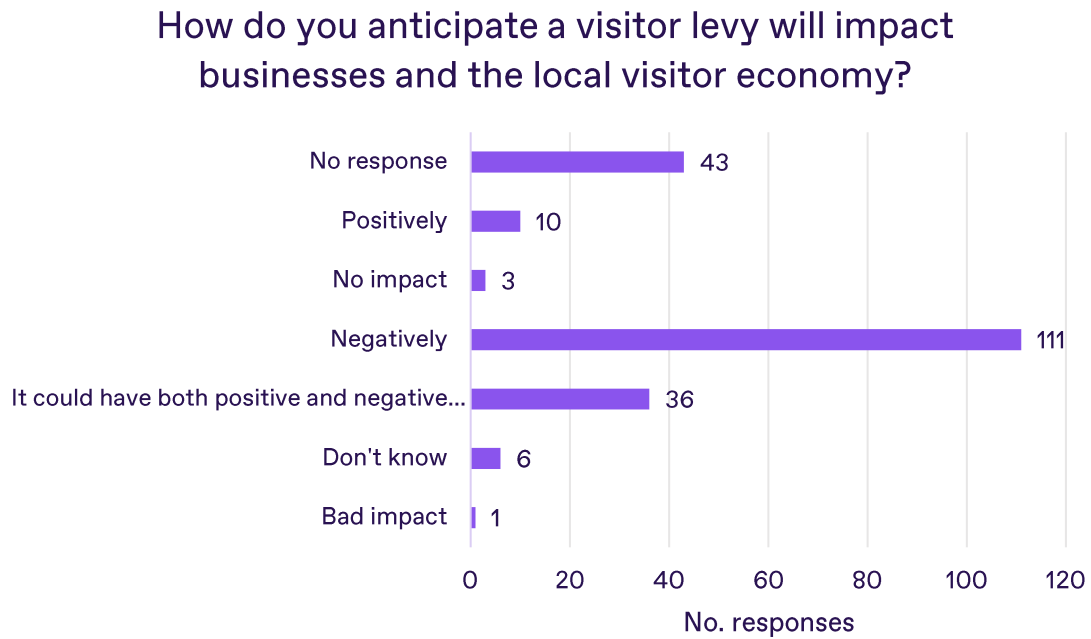
## 11/ How do you anticipate a visitor levy will impact businesses and the local visitor economy? Please provide the reason(s) for your answer.

### Responses overall (All businesses, n=210)

All businesses were asked how they anticipated a potential visitor levy would impact the local visitor economy. The majority of businesses (53%, n=111) believed it would negatively impact the local visitor economy. A further 17% (n=36) of respondents believed it could have both positive and negative impacts on the economy. A small minority of Orkney businesses (5%, n=10) believed a visitor levy would positively impact local businesses and the local visitor economy. This is represented in table and graph of Figure 5 below.



Figure 5: How do you anticipate a visitor levy will impact businesses and the local visitor economy.



Response	Count	Percent
Bad impact	1	<1%
Don't know	6	3%
It could have both positive and negative impacts	36	17%
Negatively	111	53%
No impact	3	1%
Positively	10	5%
No response	43	20%

Businesses were given an open text box to describe why they believed the visitor levy would have a positive or negative impact. These responses were coded into common themes (Figure 10) and disaggregated below. As shown in Figure 6, the most common reason for anticipating a negative impact of the visitor levy (n=111) was concerns that it would lead to a decrease in visitors. The second-most common concern related to the administrative burden for businesses to collect the levy.

## Reasons for anticipating a negative impact of the visitor levy

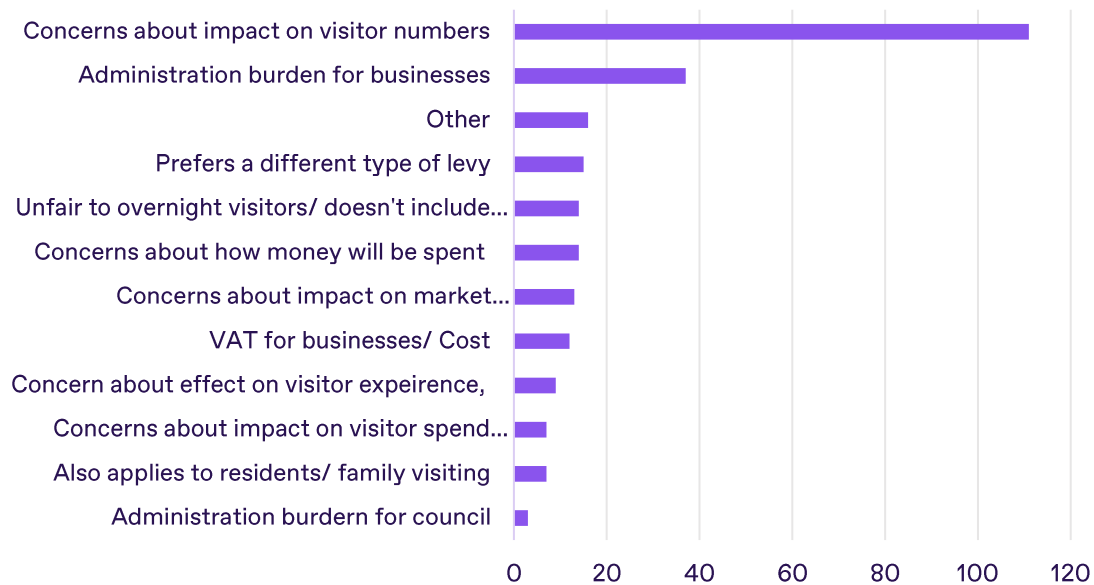


Figure 6: Reasons for anticipating a negative impact of the visitor levy

### Disaggregated results

Using the top three business respondent groups, accommodation providers, tourism related businesses, and retail, the data can be manipulated to draw cross-cutting insights into what each group felt about the levy and why they were anticipating a negative impact. The top three most selected business types were chosen because they represent the largest proportion of respondents, are most directly exposed to visitor behaviours and spending patterns, and are therefore likely to be most affected by the introduction of a visitor levy, either through administrative responsibilities or potential changes in demand.

#### → Accommodation

##### 1/ How do you anticipate a visitor levy will impact businesses and the local visitor economy?

- 112 of the accommodation businesses responded in total to this question out of the total 113.
- 82 respondents anticipated a negative impact. This amounts to 72% of respondents who answered this question.
- 21 respondents anticipated a positive and negative impact. This amounts to 19% of respondents who answered this question.

##### 2/ Reasons for anticipating a negative impact of the visitor levy

- Concerns about impact on visitor numbers (n=45, 40%).

→ Administrative burden for businesses (n=33, 29%).

## → Tourism

### 1/ How do you anticipate a visitor levy will impact businesses and the local visitor economy?

- All 24 tourism business respondents answered this question.
- 15 respondents anticipated a negative impact. This amounts to 71% of respondents who answered this question.
- 8 respondents anticipated a positive and negative impact. This amounts to 38% of respondents who answered this question.

### 2/ Reasons for anticipating a negative impact of the visitor levy

- Concerns about impact on visitor numbers (n=10, 42%).
- Unfair to overnight visitors / doesn't include day visitors (cruise or motorhomes) (n=6, 25%).

## → Retail

### 1/ How do you anticipate a visitor levy will impact businesses and the local visitor economy?

- All 13 retail business respondents answered this question.
- 7 respondents anticipated a negative impact. This amounts to 54% of respondents who answered this question.
- 6 respondents anticipated a positive and negative impact. This amounts to 46% of respondents who answered this question.

### 2/ Reasons for anticipating a negative impact of the visitor levy

- Concerns about impact on visitor numbers (n=6, 46%).
- Concerns about impact on visitor spend elsewhere / local economy (n=4, 31%).

## General survey questions (All respondents)

### 12/ If introduced, a visitor levy would be charged as a percentage of the accommodation cost. What do you think would be a reasonable percentage?

Respondents to the survey were asked what they believed a reasonable percentage for the visitor levy would be, were it to be progressed. Respondents were asked to select a number between 1%

and 10%. As illustrated in Figure 7 , among survey respondents, the most commonly selected levy rate was 5% overall. However, there are variations within this by respondent type.

For businesses, the most common response (n= 73) was that a 1% levy should be charged, whereas for local residents, the most common response was 5%, with 1% being the second most common response (n=145).

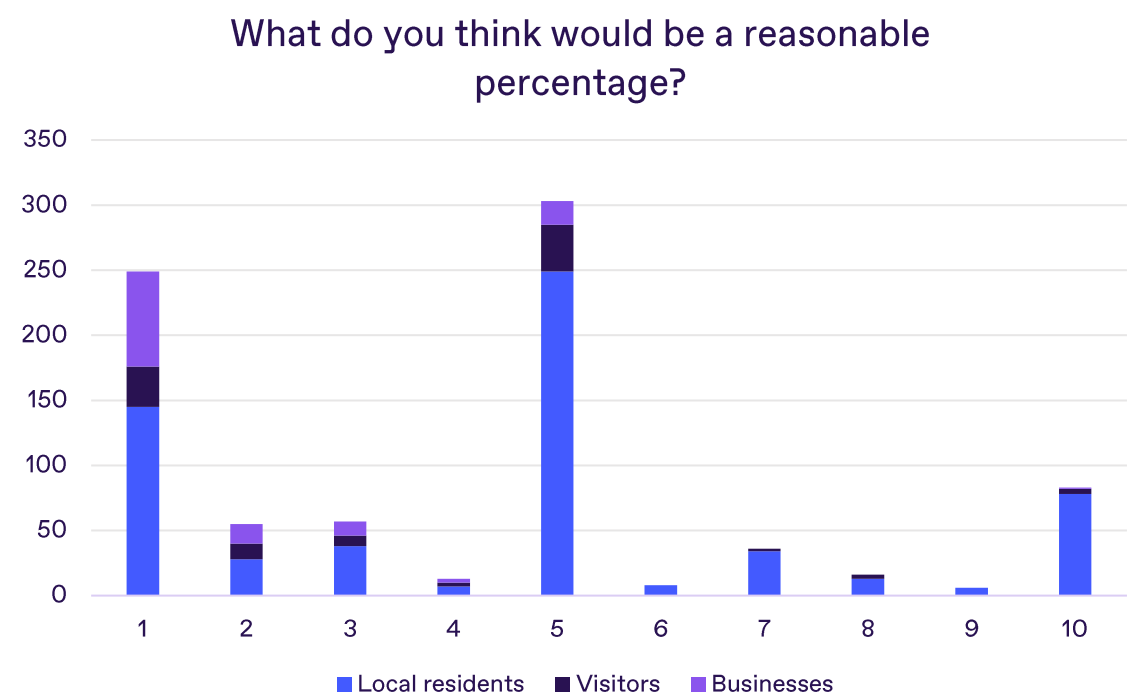


Figure 7: What do you think would be a reasonable percentage?

It is important to note that this question specifically asked about the percentage rate, should a visitor levy be implemented, and so respondents were not allowed to choose 0%, although they could skip the question.

If we assume that the 144 that did not answer this question do not agree with a visitor levy at any percentage, these results indicate that just over 1 in 10 (78 out of 680) of local residents favoured a 10% charge, however, only 1 in 25 visitors who responded to the survey saw this as reasonable. Only 1 business selected the highest percentage option (1 out of 210), and ¾ of businesses selected either the lowest percentage option or chose not to answer this question.

Overall, the average percentage charge people believed was reasonable was 3.5%. However, the data in Table 8 shows clear variation in what different stakeholder groups consider to be a reasonable percentage.

- Among local residents, the most commonly selected figure was 5%, with a relatively high overall average of 4.1%, suggesting general support for a more substantial rate.
- Visitors also most frequently selected 5%, although their average was lower, at 3.3%, indicating a slightly more conservative view overall.

- In contrast, businesses tended to favour a much lower rate, with 1% being the most frequently selected and a mean of just 1.2%, reflecting more cautious attitudes likely tied to perceived economic impact.

Table 8: Most frequent and overall average percentage choice

	Local residents	Business	Visitors
<b>Most frequently selected</b>	5%	1% (although 42% of business respondents chose to leave this question blank)	5%
<b>Overall average (mean)</b>	4.1%	1.2%	3.3%

### 13/ Should the same percentage rate be charged across an entire archipelago/ local authority area. Please provide the reason(s) for your answer.

40% of participants in the survey supported applying the same percentage across the Orkney Islands, citing fairness, ease of administration, and visitor experience, as exemplified in the stakeholder quotes selected below:

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*“Because differentiation would lead to a level of unfairness.” – Local Resident*

*“Percentages should be the same in each archipelago otherwise some places become more or less attractive to visitors” – Local Resident*

*“Simpler administration” – Local Resident*

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Table 9 below shows the disaggregated responses by respondent type for those that answered this question. Interestingly, residents and visitors both favoured the same percentage rate across the whole of the Local Authority area while businesses were almost equally divided.

Table 9: Should the same percentage rate be charged across the entire archipelago/ local authority area?

Should the same percentage rate be charged across the entire archipelago/local authority area? (Disaggregated by respondent type)		
Local residents ↘		
Answer	Percentage of responses	Number of responses
Yes	61%	399
No	29%	187

Don't know	10%	65
<b>Businesses</b> ▾		
<b>Answer</b>	<b>Percentage</b>	<b>Number of responses</b>
Yes	38%	71
No	40%	76
Don't know	22%	41
<b>Visitors</b> ▾		
<b>Answer</b>	<b>Percentage</b>	<b>Number of responses</b>
Yes	49%	54
No	30%	33
Don't know	21%	24

15% of respondents in the survey believed that the outer islands should be exempt from an accommodation levy, with a further 3% suggesting a reduced levy would be appropriate for those geographies. Stakeholders stated that the main rationale for this exemption, or reduction, is the outer islands received less visitors with increased costs already disincentivising travel.

A further 22% of respondents want no charge anywhere, and a further 5% specifically voiced support for a point of entry charge in lieu of an accommodation fee.

Table 10 below highlights a clear preference across all groups for some form of consistent, island-wide application of the charge, with “Applied everywhere” options being the most frequently selected by businesses (45%), residents (48%), and visitors (41%).

Residents and visitors also showed significant support for “No charge anywhere,” suggesting concerns about the principle or implementation of a levy. Businesses stood out for their stronger emphasis on exemptions for the Outer Isles, likely reflecting awareness of existing cost pressures and the importance of supporting more remote areas.

Table 10: Disaggregation of geographical exemptions

Top three most selected responses by respondents who answer the question:
<b>Businesses</b> ▾ <ul style="list-style-type: none"> <li>→ 45% selected ‘Applied everywhere’ in some form. The survey question included the options as follows: Applied everywhere – fairer (22%), Applied everywhere - less admin (10%), Applied everywhere – other (13%).</li> <li>→ 24% selected ‘Outer isles exempt’. Options selected included: Outer isles exempt - get less visitors (9%), Outer isles exempt - increased cost already (14%), and Outer isles exempt - spend will be on mainland (1% n=1)</li> <li>→ 16% answers ‘No charge anywhere’.</li> </ul>

#### Residents ▾

- 48% selected 'Applied everywhere' in some form. The survey question included the options as follows: Applied everywhere – fairer (20%), Applied everywhere - less admin (5%), Applied everywhere – other (23%).
- 22% selected 'No charge anyway'.
- 14% selected 'Outer isles exempt'.

#### Visitors ▾

- 41% selected 'Applied everywhere' in some form. The survey question included the options as follows: Applied everywhere - fairer (17%), Applied everywhere - less admin (10%), Applied everywhere – other (16%).
- 35% selected 'No charge anywhere'.
- 12% selected 'Other'.

### 14/ Do you think the visitor levy should apply at the same level, all year round? If not, when should the visitor levy apply?

Survey respondents were asked if they believed the visitor levy should apply at the same level all year round. Just over half of respondents to this question (53%, n=502) said no. Of those respondents that said no:

- 84 were businesses which amounts to 40% of all businesses who answered the survey
- 351 were local residents which amounts to 52% of all local residents who answered the survey.
- 67 were visitors which amounts to 63% of all visitors.

These results indicate that there is a significant level of support across all respondent groups for a seasonal variation in the visitor levy, rather than a consistent rate throughout the year. Visitors, in particular, showed the strongest preference for seasonal adjustments, with nearly two-thirds (63%) favouring a non-uniform levy.

Residents also demonstrated considerable support for a variable approach, with just over half (51%) expressing this view.

Business respondents were slightly less likely to favour seasonal variation, although a substantial proportion (42%) still opposed at the same rate.

This suggests that while there is broad recognition of the potential benefits of a flexible levy system – reflecting factors such as peak tourist periods and the impact on affordability and demand – there are some differences in opinion between stakeholder groups that would need to be carefully considered in the levy's design.

Survey respondents were then asked a follow-up question. This question asked respondents when would be best to apply a levy. The most popular variation among respondents was a levy only during the peak season with 34.5% giving this option.

An additional 166 respondents suggested it could be higher during peak season and a lower rate applied outside of these times bringing the total favouring a lower or no rate in the off season to 55% of respondents.



Figure 8: When should the visitor levy apply?

It is important to note that the numbers given in Figure 8 reflect all respondents (n=811, 81%) who used the open text box to share their opinion, not only those who answered no to the question should the visitor levy be applied at the same level all year round. Within that, 38 respondents who said yes to the first question went on to indicate a preference for only the peak season and 9 respondents who selected no to that question went on to indicate they did believe it should be applied at the same level all year round.

**15/ If a visitor levy is introduced, where should the revenue be invested?**

Figure 9 shows the priority areas for levy-funded investment outlined from the survey results. It is acknowledged that the objective of the levy is to fund tourism infrastructure, so this analysis highlights what the priority investments of the levy should be. Roads, public toilets, signage, and footpaths top the list. These selections reflect tourist expectations, long-standing local needs, and business interests – demonstrating that the levy could serve to suit the trifecta. The emphasis on infrastructure also suggests the visible, physical improvements are likely to garner the most support and perceived value.



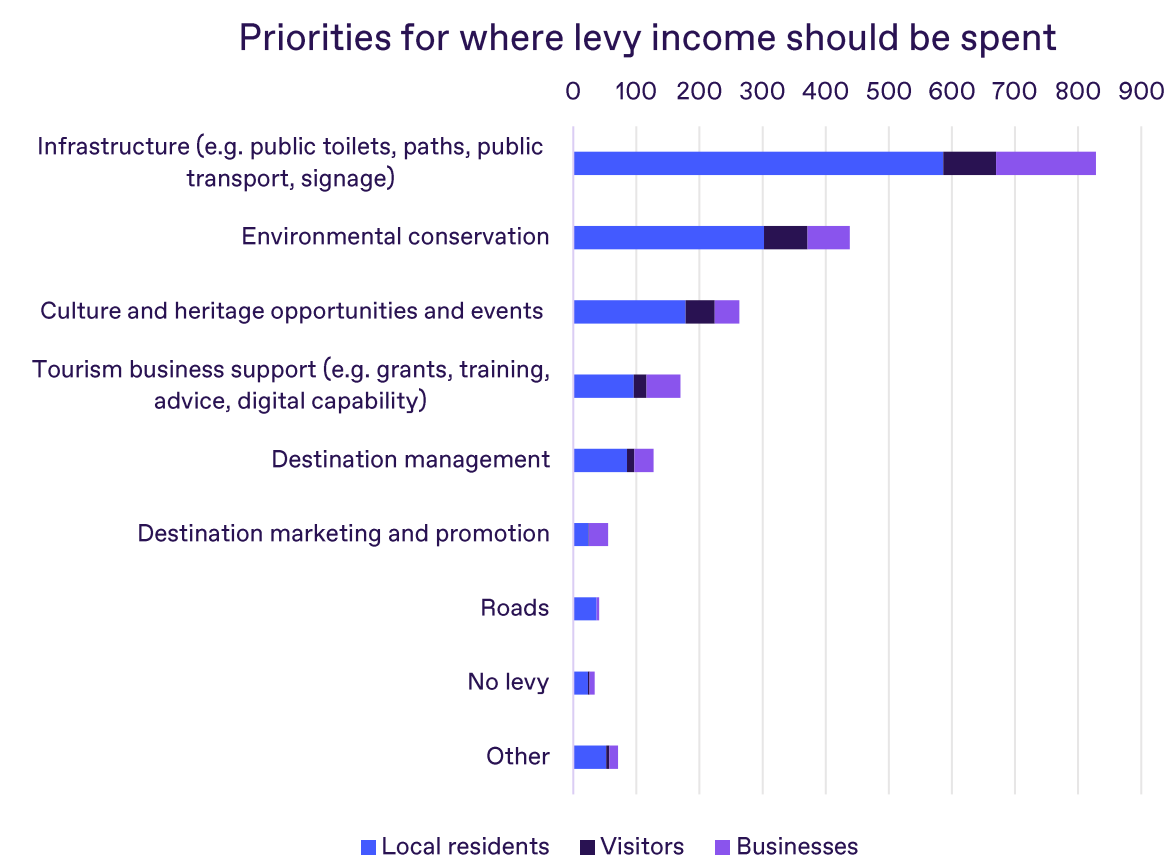


Figure 9: Priorities for levy income spending by respondent group

Top priorities for respondent group:		
Local residents ▾	Visitors ▾	Businesses ▾
<ol style="list-style-type: none"> <li>Infrastructure</li> <li>Environmental conservation</li> <li>Culture and heritage opportunities and events</li> </ol>	<ol style="list-style-type: none"> <li>Infrastructure</li> <li>Environmental conservation</li> <li>Culture and heritage opportunities and events</li> </ol>	<ol style="list-style-type: none"> <li>Infrastructure</li> <li>Environmental conservation</li> <li>Tourism business support</li> </ol>

Table 11: Top priorities by respondent group

The most commonly suggested areas for investment centred on core visitor infrastructure. This was selected as a priority by 75% of businesses, 79% of visitors and 86% of residents. Additionally, a further 5% of residents used the open text box option to specify a desire to see the money used to improve and repair roads specifically.

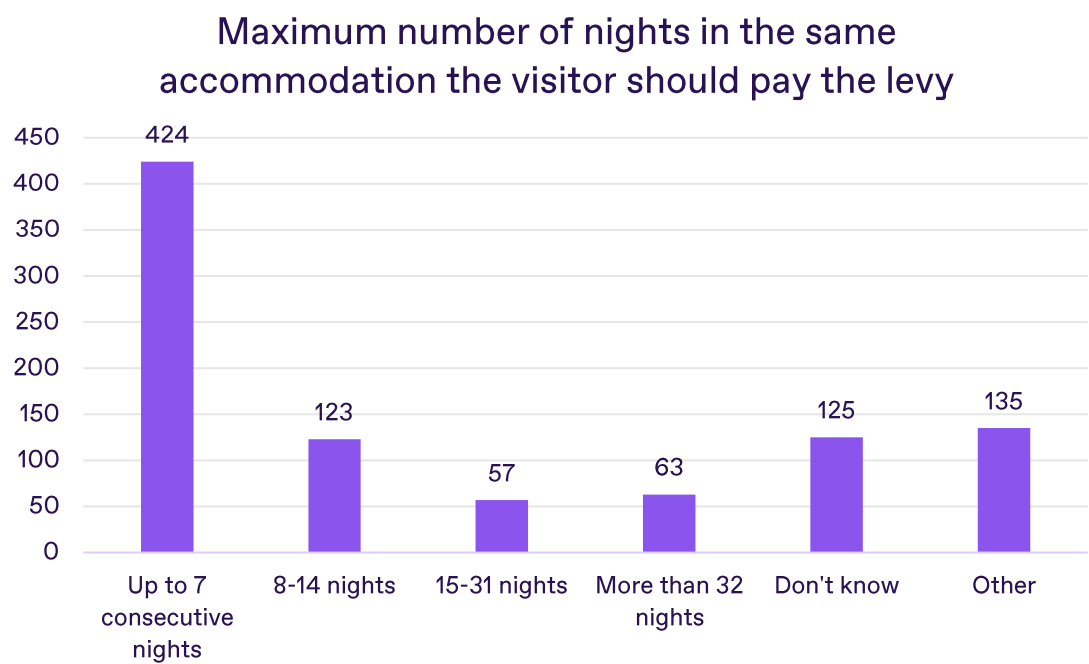
Environmental conservation was another key priority area, especially for local residents, with 44% of residents selecting this area.

Although less frequently selected overall, tourism business support was more popular with businesses than the other two respondent groups, with 26% of businesses selecting this as a

priority for spend. This was also true for destination management and destination marketing and promotion which were both selected by 14% of businesses.

**16/ Should there be a cap on the maximum number of nights that a visitor should pay a levy? If there is going to be a cap, what would be the maximum number of nights in the same accommodation that a visitor should pay a levy on?**

563 respondents said that there should be a cap on the number of nights to which the levy applied and 266 respondents said that there should not be a cap. Of those that said there should be a cap, Figure 10 shows the number of nights stakeholders suggested the levy should apply to.



*Figure 10: Maximum number of nights in the same accommodation the visitor should pay the levy*

The most common response (n=424) was that a potential levy should be applied up to the first 7 consecutive nights.

135 responses were categorised as ‘other’, with many of these respondents noting that they do not believe a visitor levy should be applied at all.

During the in-person community engagement session, it was raised that should there be a cap on the number of nights a levy could be charged for contractors coming to Orkney for large-scale projects, as this could impact project costs should an entire property be rented out for workers’ accommodation for a long period of time.

**17/ Should anyone else be exempt from paying a visitor levy the charge?**

Stakeholders were asked about what exemptions should apply to the visitor levy on top of the existing exemptions for individuals in receipt of specified disability benefits, payments, or allowances, required by the Visitor Levy (Scotland) Act 2024.

Figure 11 below shows that exemptions for local residents (783 responses), medical travellers (427 responses), and children and young people (373 responses) received the most support across stakeholder groups in the survey. One respondent stated:

*“There must be exemption(s) for locals, family of locals, and those here to do a job.” -  
Local resident*

This was reflected in the public engagement session, which also stressed that exemptions must be clearly defined and straightforward to apply. Categories proposed included hospital travel, tradespeople and contractors, and friends and family visiting for life events.

There was concern that if exemptions were too broad or poorly policed, accommodation providers could misapply them—either to reduce their own burden or avoid guest conflict—undermining the levy’s revenue potential. Clear governance over who verifies exemptions was considered critical. Edinburgh City Council have set up statutory exemptions for disabled people, who have to pay the levy to accommodation providers, then claim this back from the Council.

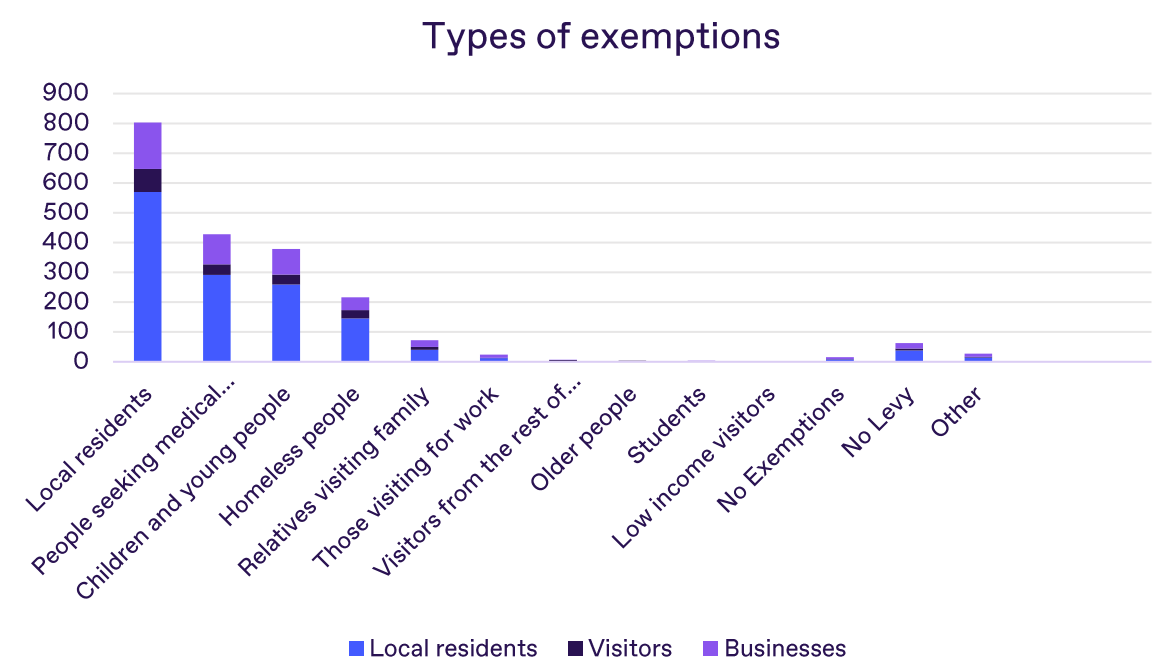


Figure 11: Stakeholder favoured types of exemption

**18/ The Scottish Government is considering giving local authorities the power to charge a levy on cruise ships. Do you support this proposal? Provide the reason(s) for your answer.**

The Scottish government is currently undertaking a consultation on a potential cruise ship levy. Respondents to the survey were asked if they would support a potential levy on cruise ships, with results shown below in Figure 12.

A total of 997 answered this question. 798 respondents said yes they would support a cruise levy, either on its own or in combination with a visitor levy. This is 80% of overall respondents and rises to 84% of local residents. Reasons giving for supporting a cruise levy included the perception that all visitors contribute to the strain on Orkney's infrastructure and that it would be unfair to expect overnight visitors to pay when cruise visitors did not.

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*"Whether you are staying overnight on a liner, roads are still being used by both forms of tourists." - Local Resident*

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Those who supported a cruise levy only gave their reason as the perceived higher impact on Orkney's infrastructure relative to their low spend on island. Many respondents cited the volume of cruise passengers arriving during summer months as having a substantial impact on the experience of local residents and other types of visitors.

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*"Cruise ship passengers descend in droves, are bussed around spoiling the visitor experience for those who choose to stay here for a period. More importantly, per capita they tend not to spend much during their brief stay so not contributing to the economy in any significant way." - Local Resident*

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*"Cruise ships appear to be the main reason for a need in improving services and infrastructure. Therefore, they should be the key target for the levy." - Local Resident*

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Additionally, a cruise levy was seen as an easier way of administering a levy to get the benefits of the income. Visitors would only have to pay once and the belief that the cost impact of the levy to cruise visitors would be very small and affordable compared to the cost of the overall cruise.

**The Scottish Government is considering giving local authorities the power to charge a levy on cruise ships.**  
**Do you support this proposal?**

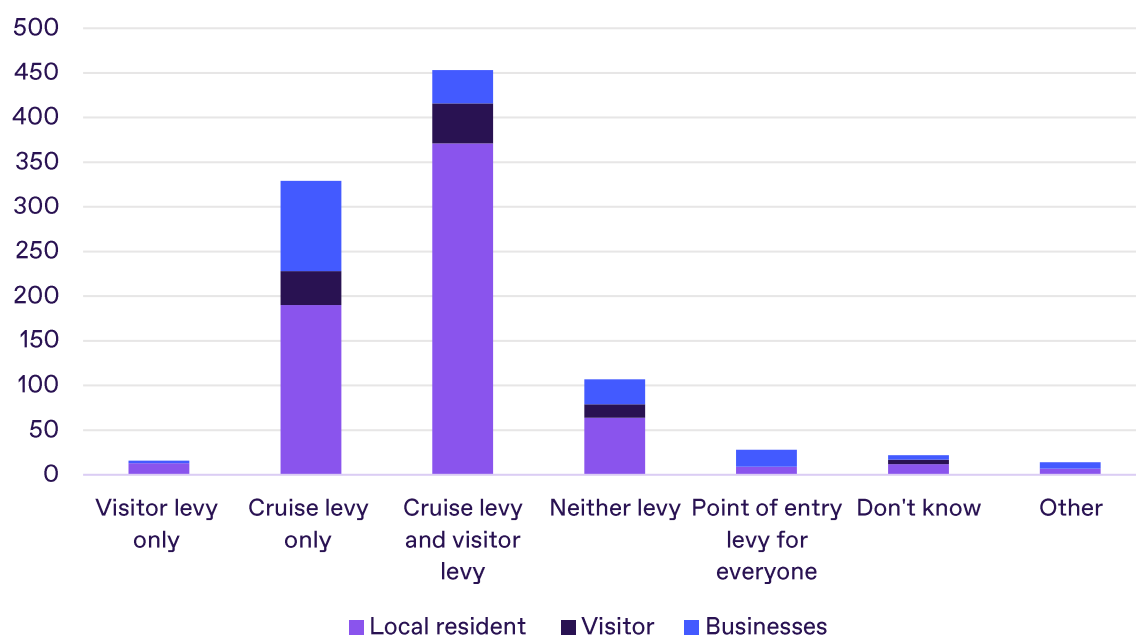


Figure 12: Support for a cruise levy compared to other types of levy

Alternatives to the accommodation based visitor levy were more popular with business, with 50% of businesses suggesting they would support a cruise levy only. Along with an additional 9% who would support a point of entry levy for everyone. Only 20% of business would support an accommodation based visitor levy, either on its own or in combination with a cruise levy.

The results suggest that visitors would be happy paying a levy in some form, as only 15% of visitors selected neither levy. The most popular option for visitors was a combination of both the cruise levy and a visitor levy (n=45), followed by a cruise levy (n=38). However, no visitors selected a 'visitor levy only' as an option.

**19/ If an option, would you support a 'point of entry' levy that would allow all visitors to contribute to the islands (including overnight, cruise ship and motorhome visitors)? Please provide the reason(s) for your answer.**

Legislation for a point of entry levy does not currently exist in Scotland. However, based on previous engagement in the islands during the pre-consultation phase of drafting the legislation, a point of entry levy was identified as the most appropriate option for the islands and the Scottish Government have included the potential for the development of a point of entry levy for islands within the Cruise Levy consultation.

62% of survey respondents would support a 'point of entry' levy, which would also include overnight, cruise and day trip/ motor home visitors, if that was an option. This includes 75% of accommodation providers, but only 51% of visitors.

Figure 13 shows the reasons given for supporting a point of entry. The most frequent reason given was that it included everyone coming into the islands, not just those who were staying in overnight accommodation. This is supported by the second most frequent response being that it was perceived as fairer.

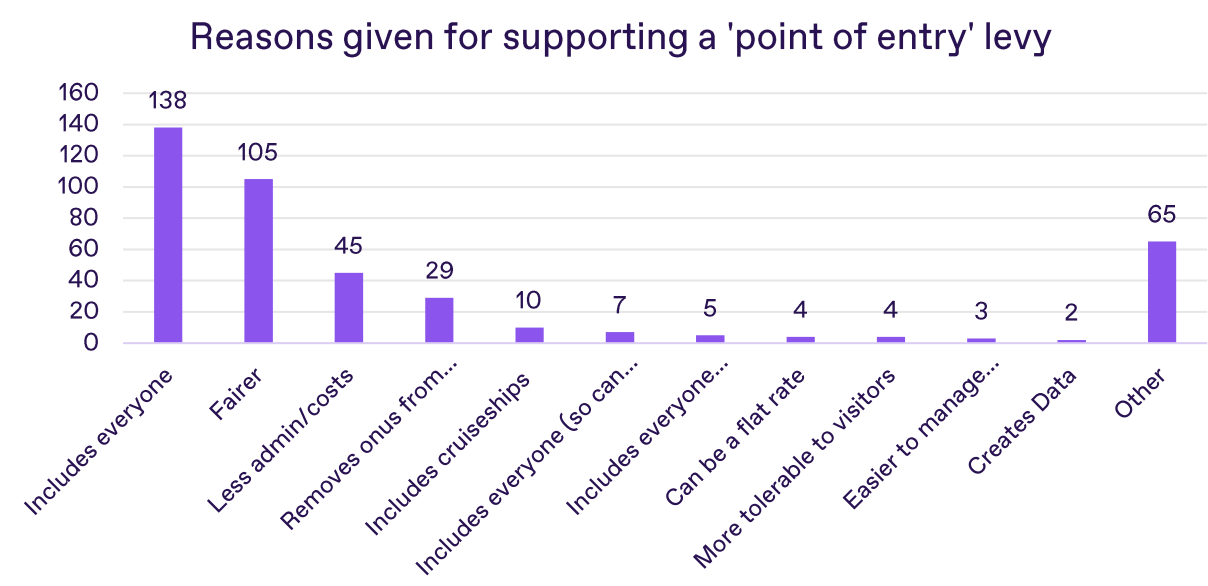


Figure 13: Reasons given for supporting a 'point of entry' levy

A point of entry levy was also seen as much easier and less costly to the Council and individual accommodation providers to administer, as it removed the onus from accommodation businesses onto a few larger transport businesses.

However, approximately 24% selected 'no' and the remaining 12% 'don't know'. Reasons for not supporting a point of entry, shown in Figure 14, included a desire not to see any form of levy applied to visitors and for only certain types of visitors such as cruise ships and motorhomes to be included in the levy. Additionally, there was concern that this levy would affect relatives traveling to stay with family whereas an overnight accommodation levy would not.

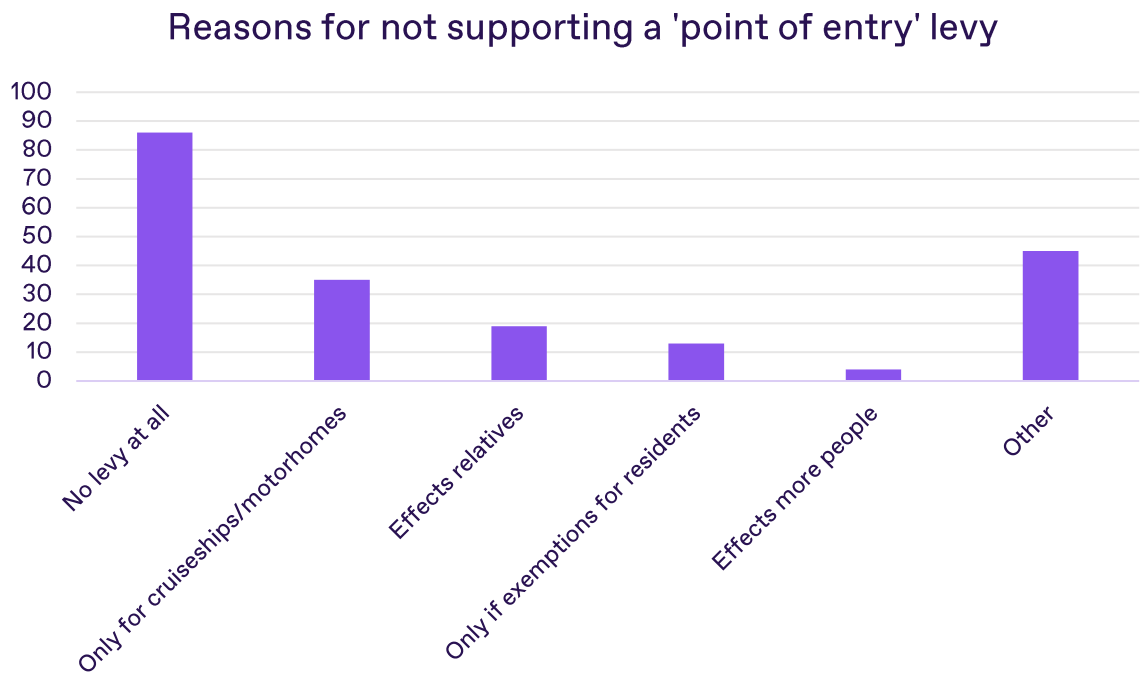


Figure 14: Reasons given for not supporting a 'point of entry' levy

## Flat fee

The Visitor Levy (Scotland) Act 2024 does not enable local authorities to introduce a flat-fee per night, only a percentage rate. A percentage rate was chosen by the Scottish Parliament as it was considered to better 'future proof' the levy, removing the need to amend the rate to keep pace with inflation. Additionally, it was seen as the more progressive approach, allowing for the levy to be proportionate to the accommodation choices of those staying overnight.

While stakeholders were not directly asked about the flat fee, some expressed support for the flat fee as a preferential alternative to a percentage fee. One respondent stated:

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*"Flat rate levies have been shown to work elsewhere e.g. Frisian Islands in Germany. They offer discounts to children/adults during the autumn and winter months, and discounted entry to sites, events." -Local Resident*

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## Public engagement sessions

Attendees of the in-person and online public engagement session were asked the following questions:

1. How would a visitor levy impact you and your community negatively?
2. How would a visitor levy impact you and your community positively?
3. How should the money be spent if a visitor levy was introduced?
4. How can we fund the local visitor economy without a visitor levy?

24 members of the public joined the online session. 26 people joined the in-person session.

## Analysis:

### 1. How would a visitor levy impact you and your community negatively?

Many attendees expressed strong concerns that a visitor levy could discourage tourism across Orkney, particularly in the more remote isles such as Sanday. Orkney is already perceived as an expensive destination, and the addition of a levy may tip the balance for potential visitors, especially when ferry services and travel logistics are already seen as barriers. Some feared this could lead to a sharp drop in visitor numbers, shortening stays and damaging efforts to promote year-round tourism. There was also anxiety that even a modest levy could harm Orkney's brand, reduce job opportunities, and contribute to economic decline. These concerns were also reflected in the Destination Orkney survey results on the same topic.

However, it is important to note that these are 'perceptions' and no data exists on how an increase in price would impact visitor numbers in Orkney to triangulate this.

Small business owners, particularly accommodation providers, emphasised the administrative burden the levy would impose. Concerns included time-consuming paperwork, the risk of fines, dealing with payments from reluctant guests, and managing complex exemption criteria. Many felt that businesses close to the VAT threshold would be disproportionately affected. There were also fears of conflict with guests, unintended charges on local residents attending events or medical appointments, and disruption to family visits. Similar concerns are also reflected in the Destination Orkney survey results.

There was a strong sentiment that introducing the levy in its current form – particularly as an accommodation-based tax – would be divisive, add costs for service providers and clients alike, and be difficult to manage. It could also create inequality between areas that adopt the levy and those that do not, especially if rates vary. Participants repeatedly questioned whether the proposal could be made fairer or simpler, suggesting that implementation as a point-of-entry levy would be more equitable and easier to manage.

Many of these concerns of the negative impact on accommodation providers and could be mitigated by reducing the burden on accommodation providers by a combination of the following:

- a) returning a share of the levy to accommodation providers to cover administration costs
- b) offering support, advice and guidance on implementation as set out in Section 5

### Concerns over the unequal impact of the levy on different stakeholders

In implementing a visitor levy, Orkney Islands Council must comply with a range of equalities duties under existing legislation. Stakeholders also expressed concerns about inequalities arising from the use of levy revenue. For example, if levy revenues are invested primarily in high-traffic areas like Kirkwall or popular heritage sites, then less-visited outer islands or rural communities may see little benefit despite experiencing pressures from tourism.

In the same vein communities asked how they could influence how funds are allocated so that inequalities are not exacerbated. Stakeholders on the outer islands were also worried that a levy



would discourage people from visiting anywhere but the mainland, thus impacting their livelihood and the visitor economy of the outer isles. There was concern that if visitors have to pay more to visit Orkney, they will spend less locally overall, thus negatively impacting local businesses that are not accommodation providers. Smaller accommodation providers also felt at a disadvantage to larger businesses who can likely absorb the cost of administration more easily.

### **Discussion of VAT implications**

The potential introduction of a Visitor Levy was highlighted as a significant challenge for accommodation providers, particularly those operating under the current £90,000 VAT threshold.

Many of these providers have structured their operations carefully to stay below this limit, either by limiting the length of their trading season or by capping their bookings. This allows them to remain exempt from the administrative and financial burdens associated with VAT registration.

However, if the proposed levy is included as part of a business's taxable turnover, it could inadvertently push some of these small operators over the threshold, triggering mandatory VAT registration. While 34% of non-VAT registered Destination Orkney survey respondents said they would be pushed over the VAT threshold at a 3% levy, rising to 55% at 7%, average annual revenue data for Orkney from Airdna suggests a different picture. The rolling 12 month average revenue in May 2025 was £23,000.

Nonetheless, the implications of this shift would be that once VAT registered, providers would have to apply VAT to all their income, effectively reducing their net revenue by 20% unless they increase their prices, and survey respondents suggested that this would make their business 'unviable'.

However, to date businesses have avoided being pushed over the VAT threshold by closing early for the season rather than shutting down altogether. This rational business strategy would therefore likely be used by more accommodation providers if they come close to the VAT threshold, rather than withdrawing from the market altogether. This would result in fewer beds available during the peak season.

The situation is concerning for those who already close their doors mid-season to avoid breaching the VAT threshold. If the visitor levy forces them to register, they may be compelled to cease operations even earlier, reducing the total number of available bed-nights in the market.

In addition, some of these small providers may be older individuals who operate guesthouses or B&Bs as a form of supplementary income. The added complexity of VAT compliance and the potential administrative burden could lead them to exit the sector altogether, further shrinking the accommodation base and undermining efforts to promote regional tourism, as well as economically disadvantaging a vulnerable sector of the population.

The extent of the potential bed stock reduction is unknown. This contraction of supply could have knock-on effects across the wider tourism economy and would benefit from further investigation.

Those accommodation providers already paying VAT will be negatively affected as they may have to raise their prices which may already be higher compared to those non-VAT registered providers, if they have not absorbed the cost themselves.

## Discussion of the sensitivity of demand to price

Scottish Government research in 2021 into the price elasticity in the tourism sector showed that, consistent with economic theory, if prices increase demand decreases, and that an increase in tourism taxation would likely result in higher tourism receipts from business travellers and non-coastal holidaymakers, but lower receipts from leisure travellers especially coastal holidaymakers, which highlights the unique impact of tourism in Scottish islands.

Although high visitor numbers, both new and repeat, alongside a post-pandemic tourism rebound, suggest that the unique attractions (such as the UNESCO world heritage site ‘Heart of Neolithic Orkney’) and Orkney’s established reputation (for natural beauty, history and Viking heritage), lead us to believe that tourism is resilient to price, and that demand is less sensitive to price changes compared to other destinations, this has not been tested in today’s economic environment. Highlands and Islands Enterprise (HIE) highlights that island tourism is “particularly exposed to seasonal disruption, weather-related cancellations, and fluctuations in cruise trends”.

The ‘cost of living crisis’ sparked by rising prices of food and energy has meant that households globally have had to make changes to the way they live in order to save money. This may not have played out in full in the tourism sector in Orkney, and stakeholder engagement with accommodation providers showed a significant amount of uncertainty in the future of visitor numbers.

While providers themselves are feeling the ‘pinch’ they are not confident to take the risk of losing income by raising prices. As a result, many operators believe they may find themselves unable to maintain profitability, particularly in rural or marginal tourism areas where visitor numbers are lower than around main sites and limited to peak seasons.

Concerns over falling visitor numbers could be addressed and perhaps somewhat mitigated by a combination of the following:

- a) Carrying out research into the actual sensitivity of demand to price in Orkney
- b) Destination marketing to promote the benefits of a visitor levy to visitors
- c) Clear signage to demonstrate the improvements made by the visitor levy

## 2. How would a visitor levy impact you and your community positively?

While the majority of feedback was critical, several participants recognised that, if carefully designed and implemented, a visitor levy could provide benefits. In particular, it was seen as a potential source of dedicated funding for maintaining and improving infrastructure and public services that both tourists and residents rely on – such as roads, public toilets, ferry services, and bins.

Some attendees supported the idea of using levy income to create a community grants pot, empowering local councils or groups to identify and fund priority projects. Ideas included improving walking and cycling routes, enhancing signage, supporting museums (such as Stromness Museum and Corrigal Farm), maintaining heritage sites like HMS Tern, and funding archaeological excavations threatened by coastal erosion.

There was also cautious support for a levy if it were implemented as a fair, modest, and consistent point-of-entry charge, which could reduce administrative burdens and generate more usable revenue. When well-managed, the levy could contribute to a more sustainable tourism model, help protect Orkney's environment and heritage and support local services during peak seasons.

A robust governance structure would need to be introduced however to overcome the concern that stakeholders had in OIC's ability to administer such a fund, and to comply with legislation, see section 6.

### **3. How should the money be spent if a visitor levy was introduced?**

Participants were clear that any money raised must be transparently managed, ring-fenced for tourism and community benefit, and not used to cover existing local authority responsibilities. Many believed the fund should be administered independently – not by Orkney Islands Council – and accompanied by visible, publicised outcomes (e.g. signage showing "this facility funded by visitor levy"). Transparency and reporting are also key elements of legislation the OIC would have to abide by, see section 6.

Spending priorities identified included:

- Maintenance and improvement of roads, signage, public toilets, and footpaths (e.g. St Magnus Way and Brodgar paths).
- Waste disposal infrastructure, particularly dog waste bins.
- Grants for museums, archaeological projects, and heritage preservation.
- Support for community tourism initiatives and small local museums.
- Enhancing public transport infrastructure and ferry services.
- Improving safety, including more CCTV in town centres and transport hubs.
- Possibly using some funds to support broader ideas such as reduced council tax or even a Universal Basic Income – though these suggestions were more speculative.

Participants also wanted communities to have a say in how the money is used – for example, through local community councils administering a portion of the funds.

### **4. How can we fund the local visitor economy without a visitor levy?**

Alternatives to a visitor levy were discussed, with ideas including:

- Securing external grants and development funding aimed at sustainable tourism.
- Attracting philanthropic donations from wealthy individuals or organisations.
- Encouraging higher-spend overnight visitors by improving the quality and diversity of the local tourism offer.

There was also a suggestion to delay any levy until a fairer, point-of-entry system could be designed, ensuring a more balanced and inclusive approach for all visitors and removing the administrative burden from accommodation providers.

# Roundtable

## Overview

8 organisations were represented at the roundtable. The meeting focused on the implications and opportunities related to commercial traffic, non-leisure stays, and the proposed visitor levy. Key topics included taxation, displacement effects, infrastructure funding, and the impact on local communities and tourism. The feasibility study was discussed, and the Point of Entry (PoE) levy, previously off the table, is now being reconsidered.

## Key discussion ↘

### Feasibility & weaknesses:

- The workshop explored both opposition to the scheme and mitigation strategies if implemented.
- The complexity of adding exemptions makes administration challenging and could counteract the tourism strategy.
- Significant winter stays are non-leisure (contractors, teachers, etc.), meaning costs ultimately fall on the community.
- Displacement effects: visitors may reduce other spending (e.g., skipping bar visits to cover levy costs).
- Substitution effects: travellers may opt for alternative destinations (e.g., choosing Eday over Stromness).
- Cap on contractor stays (e.g., five-night max) could significantly reduce revenue.

### System costs & market distortion:

- Complexity in tailoring the system to local needs could eliminate revenue benefits.
- IT and data handling issues, including data disclosure costs and till system limitations.
- Potential for businesses to work around the levy by increasing other charges (e.g., charging £200 for breakfast instead of accommodation).
- Leakage: businesses hitting their VAT threshold may close earlier to avoid additional taxation.
- Market distortion concerns—must ensure fairness in the competitive landscape.

### Administrative burden & enforcement:

- Concerns about owner-managed businesses bearing the brunt of administrative duties.
- In Edinburgh, exemptions will be handled through post-stay rebates to the council, raising enforcement concerns.
- Orkney already has administrative challenges with Short-Term Let (STL) regulations.

- Additional support may be needed for accommodation providers to comply with regulations.

#### **Orkney's brand & regional consistency:**

- If Orkney, Shetland, and the Western Isles implement different levy rates, it could create competitive imbalances.
- Need to ensure consistency across all island areas to prevent fragmentation.
- OTGA and Destination Orkney oppose any levy but acknowledge that if implemented, a Point of Entry levy is preferable.
- Levy should be applied fairly to all tourists, including wild campers and cruise passengers, not just formal accommodation users.
- Should not impact locals, residents, or visiting friends and family.

#### **Alternative approaches – Voluntary levy & point of entry levy:**

- Voluntary taxes were widely supported as a good alternative.
- The opportunity to market Orkney as an “Accommodation Tax-Free” destination while encouraging voluntary contributions.
- Cruise passengers should be charged onboard rather than only those who disembark.
- Should focus on capturing revenue at points of entry (airports, ferries, harbours) rather than targeting accommodation providers.
- Transparency and ring-fencing of funds are critical to gaining public and business support.

#### **Cruise & day-tripper considerations:**

- Cruise industry in Orkney is expected to shrink in 2025, requiring strategic adjustments.
- Day-trippers, whether independent or on coaches, are currently omitted from levy discussions but represent a growing segment.
- Cruise activity in Scotland may decline, especially with the reopening of St. Petersburg to U.S. cruise lines.
- Scottish Government is aware of potential negative impacts on cruise activity.

#### **OIC non-statutory services & funding needs:**

- Orkney Islands Council's non-statutory services (e.g., cultural services, museums) are under severe financial pressure.
- Council cannot charge admission for museums, and voluntary donations are inconsistent.
- Without additional funding mechanisms, these services will deteriorate.

#### **Areas of spend – Roads & destination management:**

- Mixed views on whether levy funds should be spent on roads with some believing this should be core Council budget and the levy should be spent on non-core investments.
- Broad consensus that funding should focus on destination management.
- Transparency in how funds are allocated will be essential.

#### Messaging & public engagement:

- The wider public needs more awareness of the threats to non-statutory services.
- Strong messaging is required to maintain Orkney's brand integrity.
- Emphasising visitor contributions as a way to protect and enhance Orkney's offerings.
- Need to explore innovative ways to encourage visitor donations, such as branding initiatives.
- Consistent communication across island groups will be essential to avoid confusion and division.

## Key informant interviews

Key information interviews were carried out. Stakeholders consulted are listed in Appendix 3.

### Edinburgh City Council

The Edinburgh City Council experience highlighted the importance of engaging industry stakeholders early—even if their initial response is critical—and being transparent about decision-making. The Council found that accommodation providers, particularly small businesses, often raised questions about fairness, rate structures, and administrative burdens. Many queried why a fixed rate was not used instead of a percentage-based system, especially given inflation concerns, but were told this was due to legislation. While a guidance document was produced, it contained many national-level answers, and a proper feedback loop was not closed.

Edinburgh did not offer direct training to providers, relying on the Improvement Service to lead on how to register and submit returns. The concerns were raised about implementation of the including time costs, VAT obligations, and the complexity of exemptions.

Administrative costs were significant—estimated at £1 million—and even though providers could retain a small percentage of the levy, the process remained burdensome. Comparisons were drawn to systems in Berlin and Porto, but stakeholders were cautious about adopting a nightly cap or overly generous exemptions, both of which could reduce effectiveness and increase complexity.

No exemptions were provided beyond the statutory requirement to exempt disabled people.

### Revenue Scotland

In discussions with Revenue Scotland, the focus was on operational delivery, emphasising that the visitor levy, like other devolved Scottish taxes, would be self-assessed and managed through a



digital-by-default system. Accommodation providers would need to register and file quarterly returns, with tax payable at the point of submission. There would be a window of 30 days to complete filings, and while paper submissions would be permitted in exceptional cases, the model strongly encourages digital engagement.

Revenue Scotland underlined the importance of robust education, guidance, and support, noting that poor communication could lead to errors and disputes. Enforcement would be based on a structured compliance model, with penalties for non-compliance, and a dedicated review process for contested decisions. A particular concern was the practical challenge of verifying exemptions and reliefs. For example, there's no routine requirement to submit evidence with a return, but evidence would be requested in cases of inquiry. The organisation flagged that the levy's success would rely on clear communication, sufficient support for providers (especially those with low digital literacy), and thoughtful integration with local authority systems.

### Argyll and Bute Council

Argyll and Bute Council shared practical insights into managing the consultation process around the visitor levy. A key challenge they faced was countering the public perception that the levy was already a done deal, when in fact only the consultation had been approved. The council ran both online and in-person engagement, tailoring their approach to different audiences. Online sessions had limited capacity, with participants submitting questions via chat, while in-person drop-in events offered physical comment cards, posters, and hard copies of the survey.

These events were designed to be informative and accessible, with materials explaining what the levy is, how it might be used, and what alternatives exist for funding tourism infrastructure. Argyll and Bute also made survey materials available in Word format online to support wider accessibility. Their approach emphasised transparency, giving residents multiple avenues to provide feedback and raising awareness of implications like VAT and possible reinvestment of funds. However, the council acknowledged the complexity of designing a workable scheme and the need to remain open and communicative throughout the process.

## Email correspondence

Email correspondence also highlighted a potential challenge for accommodation providers who use booking sites such as Airbnb, as they questioned if they would be able to collect the levy through the booking site or if this would need to be done on arrival. This was highlighted as a particular concern for those businesses that use key safes for convenience and late night check-ins and may not see their guests in-person to collect a levy.

During a meeting between Airbnb and the national visitor levy forum chaired by COSLA and Scottish Government's Digital Office in May 2024, Airbnb confirmed that a percentage visitor levy could be collected via the platform, as already done in other destinations across the world.

However, we do not have data on any associated fees or administrative burden this may incur for businesses for this, or other platforms. It must also be noted that accommodation providers who do not use booking platforms already would incur associated administrative and IT costs in joining and setting up new booking systems which could collect the levy on their behalf.

Businesses also feared a loss of competitiveness, both nationally and internationally, with visitors potentially choosing destinations without such a charge. The complexity of exemptions, enforcement, and the threat of fines contributed to a strong sense that the levy would be more harmful than beneficial to the local visitor economy.

## Conclusions

The engagement finds an overwhelmingly negative response to Orkney's proposed visitor levy from both the public and local businesses, with cautious support for the levy's goals. Overall, stakeholders recognised the potential benefits of a visitor levy for sustaining Orkney's tourism infrastructure and environment, but they highlighted critical and important considerations for its implementation. The key insights from the engagement can be summarised as follows:

### Strong support for reinvesting in infrastructure

There is broad consensus that any funds raised by a visitor levy should be devoted to improving local infrastructure and facilities for tourists and residents. Investing levy revenue in essentials like roads, public toilets, and other amenities was the top priority across residents, visitors, and businesses, reflecting a shared desire to enhance Orkney's capacity to accommodate tourism.

### Business concerns about administrative burden and competitiveness

Local businesses – especially small, owner-operated accommodation providers – expressed significant worries about the practical impact of collecting a levy. Many fear the added paperwork, compliance costs, and potential VAT implications could disproportionately strain small establishments. Businesses also feared losing competitiveness if visitors perceive Orkney as more expensive than alternative destinations without such charges.

### Preference for a cruise passenger levy and point-of-entry charge

Both residents and visitors showed majority support for levy models that ensure all types of visitors contribute fairly. In particular, an overwhelming 80% of respondents (including 84% of local residents) favoured introducing a cruise ship visitor levy, given the impact of cruise tourism on local services. Similarly, a substantial majority indicated support for a point-of-entry levy applicable to every visitor arrival (regardless of accommodation), with about 62% backing this idea as a fair, comprehensive solution. These alternatives were seen as easier to administer and more equitable than an accommodation-only tax.

### Support for a flexible, seasonal rate structure

Stakeholders across all groups voiced a clear preference for a variable levy rate that changes with the season, rather than a flat charge year-round. Nearly two-thirds of visitors (63%) and over half of residents favoured seasonal adjustments to the levy, aligning higher charges with peak tourist periods and lower or no charges in the off-season. A significant portion of businesses (42%) also opposed a single year-round rate, indicating that a one-size-fits-all approach may not be well received.

### Consensus on key exemptions

There was wide agreement that certain groups should be exempted from paying the visitor levy. In addition to the single statutory exemption for disabled people, local residents, medical travellers,



and young people (children and youths) were the most frequently supported exemptions. Participants felt it important that locals and those visiting for essential purposes (such as healthcare) not be burdened, and that the levy remain focused on leisure tourists. Clear and simple exemption criteria were emphasised to avoid confusion for both visitors and businesses.

### Visitor profiles – long stays and self-catering popularity

The engagement data revealed that most visitors to Orkney tend to stay for longer durations and favour certain types of accommodation. Over four-fifths of surveyed visitors (about 82%) stayed longer than one week on their trip, and a majority opted for self-catering accommodations like rental cottages or Airbnb's rather than hotels. This indicates that an accommodation-based levy would primarily affect longer-stay tourists and numerous small-scale self-catering businesses, which informed concerns about how the levy would be applied and managed in that sector. Further research should be conducted into applying a cap on the number of nights a levy should be applied.

### Caution about the potential tourism impact

Despite general support for the levy's aims, many contributors stressed the need for caution to avoid unintended consequences on Orkney's tourism. Businesses in particular warned that adding new charges to an already high-cost destination could discourage some visitors. There is a worry that, if the cumulative cost of travel to Orkney rises (ferries, accommodation, plus a levy), some tourists might reconsider visiting. This sentiment underscores the importance of implementing any levy in a balanced way that does not undermine Orkney's appeal or the viability of its tourism industry and the need for further research into the sensitivity of demand to price.

### Summary of stakeholder engagement

The stakeholder engagement results demonstrate a nuanced outlook on the visitor levy proposals. There is evident community support for the principle of a visitor levy to bolster Orkney's infrastructure and environment, provided that the system is fair, easy to administer, and sensitive to local circumstances. Participants envision a levy that targets high-impact visitor segments (like cruise passengers), adapts to seasonal tourism patterns, and respects local needs through appropriate exemptions. These findings highlight a community eager to strike a balance – leveraging tourism revenues for public good while safeguarding the competitiveness and hospitality that underpin Orkney's tourism economy.

### Implications for OIC: Risks of visitor levy implementation to OIC

A political, economic, social, strategic, technological, legal and environmental (PESSTLE) analysis has been used to identify the risks to OIC of implementing a visitor levy as per the current legislation.

#### Political risks

1. Local opposition: Some councillors or community stakeholders may view the levy as politically unpopular, especially if perceived as a barrier to tourism or an administrative burden for small businesses.
2. Policy inconsistency: A lack of alignment between local and national policies (e.g. Scottish Government tourism promotion vs. local taxation) could create tension or confusion.

3. Perceptions of fairness: Applying the levy across all areas and applying the levy across some areas (e.g. Mainland Orkney) but not others (e.g. ferry-linked isles) may both generate political friction among communities if not communicated adequately.
4. Stakeholder alienation: If consultation is perceived as tokenistic or rushed, local businesses and communities may feel excluded, reducing trust in the Council's governance

### Economic risks

1. Reduced visitor numbers: The introduction of a levy may discourage price-sensitive tourists, especially in the shoulder and off-peak seasons and decrease tourism receipts to the Orkney economy.
2. Impact on small businesses: Many accommodation providers are small or micro businesses with limited capacity to absorb new administrative or cost burdens, and some state they will be pushed over VAT threshold. They may choose to reduce the number of beds available or exit the market altogether, decreasing tourism receipts to Orkney.
3. Displacement effects: Tourists may choose to visit other destinations in Scotland without a levy, diverting economic activity away from Orkney.
4. Revenue unpredictability: If visitor numbers decline or the levy is difficult to collect, the expected income may fall short of projections and OIC may lose revenue.
5. Levies paid by people eligible for exemptions will have to be refunded by OIC. However, HMG Treasury has stated that it will not refund VAT. This will leave the Council to either pay the VAT back to visitors to enable a 'full refund' or issue a partial 'levy' refund only, and leave e.g. local residents to pay VAT for each stay, causing discontent.

### Social risks

1. Community division: Differing views on tourism may divide communities—some may welcome the levy as a way to manage tourism impacts, while others may see it as punitive.
2. Equity concerns: If only certain visitors (e.g. those staying in registered accommodations) pay the levy while others (e.g. wild campers or cruise passengers) do not, perceptions of unfairness may arise.
3. Resident-tourist tension: A poorly communicated or overly complex levy may worsen perceptions of tourists as burdens rather than contributors.

### Strategic risks

1. Failure to deliver visible benefits: If levy revenues are not clearly reinvested into visitor infrastructure or community improvements, public support could erode, undermining future tourism strategies.
2. Policy reversals: If the levy is poorly implemented or controversial, the Council may face pressure to pause or reverse the scheme, damaging credibility and wasting resources.

3. Missed opportunity for wider reform: A narrow focus on revenue generation could distract from broader tourism management reforms (e.g. transport integration, sustainability standards).

### Technological risks

1. Data limitations: Limited real-time data on occupancy, booking patterns, and length of stay may hinder accurate modelling and implementation.
2. Collection challenges: A lack of digital literacy or infrastructure among small providers may make it difficult to administer and enforce the levy effectively.
3. Integration with booking platforms: Difficulty integrating the levy with online travel agencies (OTAs) and booking systems could lead to confusion or non-compliance.

### Legal risks

1. Non-compliance: Businesses may resist collecting the levy if it is not well communicated why their considerations have not been taken into account or how their concerns have been mitigated. Compliance would pose challenges for OIC to legally enforce without significant resources dedicated to this.
2. Disputes and exemptions: Disagreements over exemptions and refunds (e.g. who qualifies, and what is reimbursed) could create legal challenges or appeals.
3. Data protection: Managing guest and occupancy data securely, particularly in small-scale or non-digitised businesses, could raise GDPR concerns.

### Environmental risks

1. Overreliance on funding: If the levy is used primarily to fund environmental improvements, any future drop in visitor numbers could reduce funds available for sustainability initiatives.
2. Unintended consequences: Visitors may shift to unregulated accommodation (e.g. wild camping or informal motorhome use) to avoid the levy, potentially increasing environmental pressures in unmanaged areas.
3. Reputational damage: If visitors view the levy as "greenwashing" or disproportionate, it could harm Orkney's reputation as a sustainable destination.

## 2. Advice, support, and information required to enable accommodation providers to collect and remit a levy.

Stakeholders were reluctant to discuss support they might need to implement the levy because of their general resistance to implementing the levy. However, stakeholder challenges regarding implementation have been analysed and responses have been proposed by the Urban Foresight team below.

*Table 12 Potential Support and Advice OIC Could Offer Accommodation Providers Before and During Implementation of the Levy*

Challenge	Why it matters	Action
<b>Pre-levy implementation</b>		
Lack of knowledge about the final visitor levy scheme	<p>A visitor levy should be introduced gradually, with adequate time for consultation and planning to ensure businesses are fully informed and prepared for the specific scheme that is agreed.</p> <p>There is concern that a sudden introduction of the levy could overwhelm both businesses and local government services. A gradual rollout allows time to adjust the systems and address any issues that arise.</p>	<p>→ Conduct a comprehensive consultation with local businesses, residents, and stakeholders on their support needs, as this has not been captured directly in this consultation, only inferred from the data.</p> <p>→ Ensure a gradual rollout to ensure that businesses have time to adapt their systems for levy collection if necessary.</p>
A levy applied equally across OIC could economically disadvantage some providers more than others.	<p>Unfair application of the levy may create inequalities amongst providers on mainland and ferry-linked isles who already experience fewer visitors, if visitor numbers are reduced.</p> <p>Applying the levy year-round might be unfair, especially to businesses and residents who are</p>	<p>→ Conduct an in-depth impact assessment to disaggregate the impact on ferry-linked isles and where relevant, consider applying a lower levy rate or exemptions for smaller ferry-linked islands or areas with fewer visitors.</p> <p>→ If the impact assessment shows the need, consider a seasonal</p>

	already struggling during off-seasons.	levy that helps manage tourism pressures during peak months while allowing businesses to thrive in the quieter months.
Low digital literacy to access the improvement service national shared digital visitor levy platform	Stakeholders reported some providers are elderly with low digital literacy and paper booking systems. There was concern that they would struggle with having to first adopt a digital booking system, then access the digital levy platform to report and pay levies.	<ul style="list-style-type: none"> <li>→ OIC may need to provide technical support for them to join online booking platforms.</li> <li>→ OIC may need to provide in-person initial training sessions to support those with lower digital literacy.</li> </ul>
<b>Post implementation</b>		
Financial and time resource cost of reporting	<p>Small businesses expressed concerns about becoming “unpaid tax collectors” and the additional ongoing administrative burden.</p> <p>There was also concern that the levy could hurt their competitive edge, especially if it results in increased accommodation costs, reduced visitor numbers or an increased tax burden.</p>	<ul style="list-style-type: none"> <li>→ Offer financial compensation for their time by returning a percentage of the levy back to accommodation providers.</li> <li>→ While technical support will be provided by the improvement service, some accommodation providers may contact the council for assistance in the first instance</li> <li>→ Consider alternative implementation options as set out in section 6 so accommodation providers are not responsible for collecting the levy (e.g. point of entry levy).</li> </ul>
Anger and resentment amongst accommodation providers could lead to high levy avoidance rates and negative OIC-Community relationships.	<p>If businesses understand the purpose behind the levy and see the benefits it brings, they accept it more willingly and damaged relations and levy avoidance could be limited.</p> <p>Businesses want to see clear evidence that the levy is directly benefiting the tourism sector and the local community.</p>	<ul style="list-style-type: none"> <li>→ Develop a strong communication strategy, including educational campaigns and outreach, to continually explain the benefits of the levy to both locals and visitors.</li> <li>→ Install signage that attributes improvements to the levy (“Funded by Visitor Levy”) and regularly report back to the community on how funds are being used.</li> </ul>

# 3. Cost Benefit Analysis (CBA)

The CBA section of this report examines the financial and social impacts of implementing a visitor levy in Orkney over a 1-year decision-making and planning year (2025/26), a 2-year consultation/set-up period (2026/27 -2027/28) and a 10-year implementation period, assuming the levy starts collecting revenue in 2028/29.

The implementation year was taken to be 2028/29 to account for decision-making, designing, and planning processes within the Council and the statutory consultation period, which would make 2028/29 the first full financial year revenue from a visitor levy could be collected.

An assessment of costs and benefits over a 10-year implementation period aligns with HMT Green Book standards and is considered best practice for policy interventions and implementations.

The CBA explores both a year-round levy and a seasonal levy scenario at various levy percentages. Each scenario is evaluated to understand how it might affect visitor revenue, local businesses, the local authority and the community. Each of the costs to the council and local businesses are described in further detail in the methodology section below.

The analysis considers both the direct and indirect costs to the council and accommodation providers (see cost breakdown in methodology) involved in setting up and managing the levy, as well as the potential financial benefits, which in turn could lead to social benefits from investment in Orkney's tourism economy.

Social disbenefits have not been considered in this analysis as the focus is on providing a clear and quantifiable financial assessment. This is done by examining metrics like the Benefit-Cost Ratio (BCR), Net Revenues and Annual Balances as per HMG Green Book. The report also aims to provide a clear picture of the financial viability and overall benefits of each option. This will help stakeholders make an informed decision about the best approach to implementing a visitor levy in this area.

## Methodology

The methodology section outlines the approach taken to calculate the costs and benefits of the visitor levy. It includes the identification of direct and indirect costs, revenue projections, and the evaluation of unquantifiable benefits.

The full methodology can be found in Appendix 2. This section is important for understanding how the analysis was conducted and the assumptions made.

## Costs

The costs include both direct and indirect costs to the council and accommodation providers. This includes set-up and administration costs, consultation and decision-making, and costs incurred by accommodation providers to change Property Management Systems (PMS).

Full cost calculations for the year-round visitor levy and seasonal levy can be found in Appendix 2.



The total costs for the year-round levy over the period are summarised in the chart below. Over the full period, the development and implementation of a year-round visitor levy scheme is estimated to cost a total of £10,763,144.85 to the council and local businesses.

Cost	Value
Direct Costs Local Council	£2,305,660.91
Direct Costs Local Businesses (accommodation providers)	£6,304,854.97
Optimism Bias	£1,291,577.38
Leakage	£861,051.59
<b>Total Cost</b>	<b>£10,763,144.85</b>

Table 13: Total costs, year-round levy

The total costs for the seasonal levy equate to £6,679,072.43. This includes £1,290,830.45 in direct costs to the council and £4,052,427.49 in direct costs to local businesses, optimism bias of £801,488.69 and leakage of £534,325.79.

Cost	Value
Direct Costs Local Council	£1,290,830.45
Direct Costs Local Businesses (accommodation providers)	£4,052,427.49
Optimism Bias	£801,488.69
Leakage	£534,325.79
<b>Total Cost</b>	<b>£6,679,072.43</b>

Table 14: Seasonal Total Costs

## Benefits

The main benefit of this visitor levy scheme is visitor revenue. This is charged as a percentage of the total cost of accommodation. Visitor revenue has been calculated using the following calculations:

$$\text{Number of rooms} \times \text{Number of days in period} \times \text{Occupancy rate} = \text{Nights booked}$$

$$\text{Nights booked} \times \text{Cost per night} = \text{Total accommodation cost}$$

$$\text{Total charge} \times \text{Levy percentage} = \text{Revenue}$$

The number of days was taken to be 365 days for the year-round levy and 214 for the seasonal levy. The number of rooms was calculated from short-term let licence data from Orkney, combined



with the number of caravans and hotels in Orkney, as short-term let licenses are not always required for these premises.

Occupancy rates were taken from the average occupancy rate data from Airdna from 2024. Although Airdna does not collect data on all accommodation types, this provides a suitable approximate figure of average occupancy across the year based on the available data.

As the exact number of rooms and occupancy could not be estimated and forecasted over the next 10 years, economic adjustments, which are discussed in the methodology in Appendix 2, were applied.

## Findings

### Year-round levy

The table below demonstrates the annual net revenue from a year-round visitor levy set at 1%, 3%, 5%, 7%, and 9%. The net revenue is the total revenue, minus all the costs incurred by the council and the local businesses.

Table 15: Annual balance, year-round levy

Orkney year round	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
1% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	-£369,097.65	-£499,034.82	-£548,004.16	-£506,640.56	-£524,372.98	-£542,726.03	-£561,721.44	-£581,381.69	-£601,730.05	-£622,790.60	-£7,834,374.98
3% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£130,207.05	£17,745.55	-£13,136.48	£46,947.49	£48,590.65	£50,291.32	£52,051.52	£53,873.32	£55,758.89	£57,710.45	-£1,976,835.24
5% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£629,511.75	£534,525.91	£521,731.19	£600,535.54	£621,554.28	£643,308.68	£665,824.48	£689,128.34	£713,247.83	£738,211.51	£3,880,704.51
7% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£1,128,816.45	£1,051,306.28	£1,056,598.87	£1,154,123.58	£1,194,517.91	£1,236,326.04	£1,279,597.45	£1,324,383.36	£1,370,736.77	£1,418,712.56	£9,738,244.27
9% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£1,628,121.15	£1,568,086.64	£1,591,466.55	£1,707,711.63	£1,767,481.54	£1,829,343.39	£1,893,370.41	£1,959,638.37	£2,028,225.72	£2,099,213.62	£15,595,784.02

Due to the set-up and consultation costs which will be incurred in the years preceding the collection of a potential levy, significant capital will be at risk prior to making returns from a visitor levy. For the 3% Levy, net revenue is minimal, and it goes from positive to negative in year 3 of the implementation period due to the three-year review costs.

After the 10 year implementation period, a visitor levy at 5% or greater is profitable. At implementation year-10 (2037/38), a 5% levy will generate £3,880,704.52 in net revenue, and a 7% levy is estimated to generate £9,738,244.27. A 9% levy is estimated to generate £15,595,784.02.

The Net present value (NPV) and BCR of the visitor levy at different percentages over the 10-year implementation period is summarised in the table below. Both the 1% and 3% visitor levy have negative NPVs and below 1 BCR's, indicating that a visitor levy at these percentages is not expected to generate net benefits for Orkney over the 10-year period.

Table 16: Key findings, year-round levy

Levy percentage	Net present value	BCR
1% Levy	-£7,834,374.98	0.27
3% Levy	-£1,976,835.23	0.82
5% Levy	£3,880,704.52	1.36
7% Levy	£9,738,244.27	1.90
9% Levy	£15,595,784.02	2.45

In comparison, the 5%, 7%, and 9% levies have positive NPVs and above 1 BCR's, which suggests that the levy at these rates is a worthwhile investment, as it is likely to provide a significant return on investment and contribute positively to the local economy over a 10-year period.

## Sensitivity analyses

Sensitivity analysis tests the robustness of the results by varying key assumptions and parameters. This helps to understand how changes in these variables affect the outcomes and provides insights into the potential risks and uncertainties.

### Exemptions

The legislation allows local authorities to grant exemptions on who has to pay the overnight accommodation levy. In the public engagement sessions and survey, it was clearly highlighted that there is an expectation that Orkney residents should be exempt from paying a levy. Participants also indicated that those seeking medical treatment and children and young people should also be exempt. Additionally, exemptions might be considered for long-term visitors who stay beyond a certain number of days, promoting extended stays and deeper engagement with the local community. This would be in addition to the statutory exemptions, such as for those receiving certain disability benefits, outlined in the legislation.

It is important to note that those who are exempt would have to pay the levy in the first instance and then retrospectively claim the money back from the council.

As the exemptions would be decided during the development of the scheme, the percentage of stays that would be exempt cannot currently be estimated with available data. As a result, the table below provides a summary of the net revenue from a 1%, 5%, and 7% visitor levy, with different scenarios demonstrating no exemptions, and 10%, 20%, 30%, and 40% of stays being exempt from the levy.

Table 17: Exemptions sensitivity analysis, year-round levy

1% Orkney Year-Round	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£2,928,769.87	£2,635,892.89	£2,343,015.90	£2,050,138.91	£1,757,261.92
Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits-total costs)	-£7,834,374.98	-£8,127,251.97	-£8,420,128.95	-£8,713,005.94	-£9,005,882.93
5% Orkney Year-round	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£14,643,849.37	£13,179,464.44	£11,715,079.50	£10,250,694.56	£8,786,309.62
Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits-total costs)	£3,880,704.52	£2,416,319.58	£951,934.65	-£512,450.29	-£1,976,835.23
7% Orkney Year-round	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£20,501,389.12	£18,451,250.21	£16,401,111.30	£14,350,972.39	£12,300,833.47
Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits-total costs)	£9,738,244.27	£7,688,105.36	£5,637,966.45	£3,587,827.53	£1,537,688.62

As can be seen, at all exemption levels for the 1% levy net revenue is negative and continues to decrease. If 30% or more of stays are exempt at the 5% levy rate, then the net revenue is negative. At 7% levy rate more than 40% of visitors can be exempt, and net revenue will still be positive. This provides a baseline overview however, further analysis should be done to get a full understanding of how many visitors may be exempt under any proposed exemptions.

## Decrease in rooms

The following test is to show the effect on revenue of reducing the number of rooms available would have if a visitor levy been introduced. The reason for this test is that many stakeholders said they would consider closing due to the increased cost and time effort the legislation would bring. The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no decrease, 10% and 20% decreases in the number of rooms available.

As the percentage of rooms decreases, we see revenue fall, resulting in lower net revenue. If there is a 20% decrease in the number of rooms, the net revenue of a visitor levy is negative. Again, this highlights a significant risk if the decrease in available rooms was realised. For example, if accommodation providers shortened their seasons to stay below the VAT threshold or if accommodation providers ceased operating due to the increased administration work created from the levy.

Table 18: Decrease in rooms sensitivity analysis, year-round

Orkney Year-round	No Decrease	10% Decrease ↓	20% Decrease ↓
Revenue	£14,643,849.37	£11,648,337.06	£10,354,077.39
Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits-total costs)	£3,880,704.52	£885,192.21	-£409,067.46

## Increase in costs

The following test is to show the effect on net revenue should the costs of introducing the visitor levy increase. The reason for this test is to test the robustness of the levy scheme due to a number of both council and accommodation costs not being finalised as of yet. The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no increase, 10% and 20% increases.

Table 19: Increase in costs sensitivity analysis, year-round levy

Orkney Year-round	No Increase	10% Increase ↑	20% Increase ↑
Revenue	£14,643,849.37	£14,643,849.37	£14,643,849.37
Total costs	£10,763,144.85	£11,839,459.34	£12,915,773.82
Net revenue (Total benefits-total costs)	£3,880,704.52	£2,804,390.04	£1,728,075.55

## Seasonal levy

The table below demonstrates the annual net revenue from seasonal visitor levy set at 1%, 3%, 5%, 7%, and 9%. The net revenue is the total revenue minus all the costs incurred by the council and the local businesses.

Table 20: Annual balance, seasonal levy

Orkney seasonal	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
1% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	-£165,246.09	-£200,534.39	-£235,585.91	-£194,153.29	-£200,948.65	-£207,981.86	-£215,261.22	-£222,795.36	-£230,593.20	-£238,663.96	-£4,588,638.93
3% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£191,136.73	£168,321.83	£146,180.28	£200,974.71	£208,008.83	£215,289.14	£222,824.26	£230,623.11	£238,694.91	£247,049.24	-£407,771.96
5% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£547,519.55	£537,178.04	£527,946.46	£596,102.71	£616,966.31	£638,560.13	£660,909.74	£684,041.58	£707,983.03	£732,762.44	£3,773,094.99
7% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£903,902.37	£906,034.26	£909,712.65	£991,230.72	£1,025,923.79	£1,061,831.12	£1,098,995.21	£1,137,460.05	£1,177,271.15	£1,218,475.64	£7,953,961.96
9% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£1,260,285.19	£1,274,890.48	£1,291,478.83	£1,386,358.72	£1,434,881.27	£1,485,102.12	£1,537,080.69	£1,590,878.52	£1,646,559.26	£1,704,188.84	£12,134,828.92

Similar to the year-round levy, the seasonal levy does not generate net benefits at 1% or 3% across a 10-year implementation period. Although yearly net benefits are positive in years 2028/29 – 2037/38 for the 3% levy, due to the high set up costs overall net present value is negative. In comparison, the 5%, 7%, and 9% levies have positive NPVs, which suggests that the levy at these rates is a worthwhile investment, as it is likely to provide a positive return on investment and contribute to the local economy. For example, a seasonal visitor levy of 5% is expected to generate a total of £3,773,094.99 over the 10-year implementation period. A 7% levy is estimated to generate £7,953,961.95. A 9% levy is estimated to generate £12,134,828.92.

Similar to the year-round levy, it must be highlighted that capital will be at risk due to the costs incurred in the set-up and consultation activities before the revenue starts to be collected.

Table 21: Key findings, seasonal levy

Levy percentage	Net present value	BCR
1% Levy	-£4,588,638.94	0.31
3% Levy	-£407,771.98	0.94
5% Levy	£3,773,094.99	1.56
7% Levy	£7,953,961.95	2.19
9% Levy	£12,134,828.92	2.82

## Sensitivity analyses

Sensitivity analysis tests the robustness of the results by varying key assumptions and parameters. This helps to understand how changes in these variables affect the outcomes and provides insights into the potential risks and uncertainties. The same sensitivity analyses have been conducted as for the year-round levy.

All sensitivity analyses have been conducted on a 5% levy as an example.

### Exemptions

Similar to the year-round levy, any exemptions would be decided during the development of the scheme, therefore the percentage of stays that would be exempt cannot currently be estimated with available data. Exemptions could potentially include, in addition to the statutory example for disabled people, Orkney residents, health travellers, contractors and essential service providers, children, and visiting family members.

As a result, the table below provides a summary of the net revenue from a 1%, 5% and 7% seasonal visitor levy, with different scenarios demonstrating no exemptions, and 10%, 20%, 30%, and 40% of stays being exempt from the levy. As can be seen, at 1%, net revenue is negative at all exemption levels. If 40% of stays are exempt from the 5% levy this has a negative net revenue over the 10-year period. At the 7% levy rate net revenue is positive at all exemption levels.



Table 22: Exemptions sensitivity analysis, seasonal levy

1% Orkney seasonal	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£2,090,433.48	£1,881,390.13	£1,672,346.79	£1,463,303.44	£1,254,260.09
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits-total costs)	-£4,588,638.94	-£4,797,682.29	-£5,006,725.64	-£5,215,768.99	-£5,424,812.34
5% Orkney seasonal	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£10,452,167.42	£9,406,950.67	£8,361,733.93	£7,316,517.19	£6,271,300.45
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits-total costs)	£3,773,094.99	£2,727,878.25	£1,682,661.51	£637,444.76	-£407,771.98
7% Orkney seasonal	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£14,633,034.38	£13,169,730.94	£11,706,427.51	£10,243,124.07	£8,779,820.63
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits-total costs)	£7,953,961.95	£6,490,658.52	£5,027,355.08	£3,564,051.64	£2,100,748.20

## Decrease in rooms

The following test is to show the effect on revenue of reducing the number of rooms available would have if a visitor levy been introduced. The reason for this test is that many stakeholders said they would consider closing down due to the increased cost and time effort the legislation would bring. The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no decrease, 10% and 20% decreases.

Table 23: Decrease in rooms sensitivity analysis, seasonal levy

Orkney Seasonal	No Decrease	10% Decrease ↓	20% Decrease ↓
Revenue	£10,452,167.42	£8,314,095.97	£7,390,307.53
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits-total costs)	£3,773,094.99	£1,635,023.55	£711,235.10

### Increase in costs

The following test is to show the effect on net revenue should the costs of introducing the visitor levy increase. The reason for this test is to test the robustness of the levy scheme due to a number of both council and accommodation costs not yet finalised. The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no increase, 10% and 20% increases.

Table 24: Increase in costs sensitivity analysis, seasonal levy

Orkney Seasonal	No Increase	10% Increase ↑	20% Increase ↑
Revenue	£10,452,167.42	£10,452,167.42	£10,452,167.42
Total costs	£6,679,072.43	£7,346,979.67	£8,014,886.91
Net revenue (Total benefits-total costs)	£3,773,094.99	£3,105,187.75	£2,437,280.50

### Cost savings to OIC through joint implementation with Shetland and the Western Isles

Consultation with the Improvement Service have shown that there are flat fees for using the digital platform for levy collection, and these will not be reduced through joint implementation of a visitor levy. Council officers explored the option of a shared dedicated visitor levy officer to support implementation of the visitor levy in Orkney, Shetland and the Western Isles and concluded that given the number of accommodation providers, that this would not be reasonable, and opted to have their own individual resource instead. It is therefore concluded that there is no cost saving to OIC through joint implementation of the visitor levy.

### Increases in Visitor Numbers

The increase in visitor numbers over the 10 year implementation period has been accounted for throughout our visitor revenue calculations using a number of economic adjustments. These include estimations of how visitor numbers are expected to grow annually using a combined annual growth rate of historical visitor numbers as well as previous occupancy rate trends and data. Moreover, to account for price and demand adjustments due to increased visitors, an inflation multiplier has been applied over the 10-year period to both the number and price of rooms.

However, theoretically a well-managed and successful visitor levy should drive increased visitor numbers, and potentially longer average stays and expenditure per head, ahead of projections as they stand currently. This is due to the expected increased attractiveness of a destination that is able to invest regularly in developing the tourism infrastructure and offering.

## 4. Conclusion

Overall, the findings from this feasibility study indicate that there is widespread opposition among the residents and local businesses to a percentage based visitor levy on overnight accommodation.

The majority of businesses who engaged in the research anticipated that a visitor levy would have a negative impact on local businesses, tourism, and the wider economy of Orkney. The main concern from businesses was that a visitor levy would lead to a reduction in visitor numbers. However, there is not enough data to determine the actual impact of price increases on visitor numbers, and further research is required to gain clarity on this.

Additionally, local businesses, especially small and independently-run accommodation providers, held significant concerns about the operational and financial burden the levy would impose on accommodation providers.

Residents raised significant concerns about the impact of a visitor levy on their inter-island travel, including for health visits, or other essential travel noting that residents should be exempt from any visitor levy.

The results from the cost benefit analysis estimated that both a year-round visitor levy and seasonal levy are expected to generate positive net benefits at a 5% levy or greater over a 10-year implementation period.

However, the sensitivity analyses indicated that the return on investment may be significantly affected by any exemptions to the levy, increases in costs, and decreases in the number of rooms available, presenting significant risk.

For the year-round visitor levy, at 5% levy rate if 30% of visitors are exempt, the costs of a levy scheme become greater than the revenue generated. For the seasonal 5% levy, if 40% of visitors are exempt then the scheme does not generate net benefits. Similarly, for the year-round levy, a 5% visitor levy scheme is not profitable if there is a 20% decrease in the number of rooms.

In addition, there is significant capital at risk before a proposed visitor levy scheme would generate income, or become profitable, because of the investment required in the digital platform, stakeholder consultation, as well as the internal council governance and reporting systems.

On the other hand, a point of entry or cruise levy, was supported by the majority of survey respondents, as it included everyone and was felt to be fairer. Orkney's unique geographical position, where all travellers to the isles come by either ferry or airplane, is suited to a point of entry levy, which could be easily administered at these entry points.

Whether the visitor levy is viable or not depends on the design of the scheme. While the point of entry style levy received the most endorsement, a CBA of this levy was out of scope of this report, as this only become a legal option mid-way through the contract, when the Scottish Government issued a consultation on the Cruise Ship levy in February 2025.

It is recommended therefore that a CBA of the point of entry levy be undertaken to compare the results with the CBA carried out in this analysis.

Further analysis is also required on the number of people and geographies eligible for the different proposed exemptions in order to accurately predict the actual revenue OIC would receive.

Research also needs undertaken on the sensitivity of price to demand to accurately estimate the true impact of a levy on visitor numbers.

The visitor levy could generate meaningful revenue but also risks unintended impacts on affordability, tourism distribution, and small business capacity. These trade-offs, alongside the legal and geographic flexibility allowed under the legislation, point to the need for a carefully tailored and evidence-based approach—supported by further research on visitor behaviour, price sensitivity, and inter-island impacts.

# Appendices

# Appendix 1: Survey questions

All ▾			
Are you a:		→ Visitor → Tourism Related Business Owner → Business Owner/Operator → Local Resident	
Where are you based?		→ Orkney Mainland and linked South Isles → Orkney ferry-linked isles → Shetland Mainland → Shetland ferry-linked isles → Lewis / Harris → North Uist / Berneray / Benbecula / South Uist → Barra and Vatersay → Other	
Business Branching Questions ▾		Visitor Branching Questions ▾	
What type of business do you represent?	→ Accommodation → Tourism (e.g. tour operator, activity provider, visitor attraction) → Food and drink → Retail → Transportation → Other	Which of the following locations did you visit on your most recent trip?	→ Orkney → Shetland → Western Isles / Outer Hebrides
How do you anticipate a visitor levy will impact businesses and the local visitor economy?	→ Positively → Negatively → No impact → It could have both positive and negative impacts → Don't know → Other	How long do you plan to stay?	→ 1-2 nights → 3-5 nights → 6-10 nights → More than 10 nights



If introduced, a visitor levy would be charged as a percentage of the accommodation cost. What do you think would be a reasonable percentage?	Open	What was the main type of accommodation you used?	→ Hotel → Bed and breakfast or guesthouse → Campsite or caravan park → Staying with friends or family → Self-catering (Airbnb, cottage, etc.) → Other
Should the same percentage rate be charged across an entire archipelago/local authority area?	→ Yes → No → Don't know	How did you travel to Orkney, Shetland, or the Western Isles?	→ Ferry → Plane → Other
If a visitor levy is introduced, where should the revenue be invested? (Select up to 3 options)	→ Infrastructure (e.g. public toilets, paths, transport, signage) → Environmental conservation → Culture and heritage → Destination marketing → Tourism business support → Destination management → Don't know → Other	How did you hear about the destination(s)?	→ Word of mouth → Social media → Travel website/blog → Official tourism board → Other

Should there be a cap on the maximum number of nights a visitor should pay a levy?	<ul style="list-style-type: none"> <li>→ Yes</li> <li>→ No</li> <li>→ Don't know</li> </ul>	How likely are you to visit if a levy is introduced?	<ul style="list-style-type: none"> <li>→ Very likely</li> <li>→ Somewhat likely</li> <li>→ Neutral</li> <li>→ Unlikely</li> <li>→ Very unlikely</li> <li>→ Don't know</li> </ul>
If there is a cap, what's the maximum number of nights?	<ul style="list-style-type: none"> <li>→ Up to 7 consecutive nights</li> <li>→ 8–14 consecutive nights</li> <li>→ 15–31 consecutive nights</li> <li>→ More than 32 nights</li> <li>→ Don't know</li> <li>→ Other</li> </ul>		
Should the visitor levy apply at the same level all year round?	<ul style="list-style-type: none"> <li>→ Yes</li> <li>→ No</li> <li>→ Don't know</li> </ul>		
If not, when should it apply?	<ul style="list-style-type: none"> <li>→ During the peak season</li> <li>→ Only during the off season</li> <li>→ Higher in peak season</li> <li>→ Higher in off season</li> <li>→ Same level year round</li> <li>→ Don't know</li> <li>→ Other</li> </ul>		
Should anyone else be exempt? (Select all that apply)	<ul style="list-style-type: none"> <li>→ Local residents</li> <li>→ Children and young people</li> <li>→ Homeless people</li> </ul>		

	<ul style="list-style-type: none"> <li>→ Those seeking medical treatment</li> <li>→ Other</li> </ul>		
Do you support a cruise ship levy?	<ul style="list-style-type: none"> <li>→ Yes, levy on cruise ships &amp; overnight accommodation</li> <li>→ Yes, cruise ship levy only</li> <li>→ No levies at all</li> <li>→ No, visitor levy only</li> <li>→ Don't know</li> <li>→ Other</li> </ul>		
Would you support a 'point of entry' levy for all visitor types?	Do you have anything else you'd like to add?		
All ▾			
What is your age group?	<ul style="list-style-type: none"> <li>→ Under 18</li> <li>→ 18–24</li> <li>→ 25–34</li> <li>→ 35–44</li> <li>→ 45–54</li> <li>→ 55–64</li> <li>→ 65+</li> <li>→ Prefer not to say</li> </ul>		
If you are a visitor, where do you usually reside?	<ul style="list-style-type: none"> <li>→ Scotland</li> <li>→ Rest of the UK</li> <li>→ Europe</li> <li>→ North America</li> <li>→ Other</li> <li>→ Prefer not to say</li> </ul>		

# Appendix 2: Cost Benefit Analysis

The Cost-Benefit Analysis (CBA) section of this report examines the financial and social impacts of implementing a visitor levy in Orkney over a 1-year decision-making and planning year (2025/26), a 2-year consultation/set-up period (2026/27 -2027/28) and a 10-year implementation period, assuming the levy starts collecting revenue in 2028/29. The implementation year was taken to be 2028/29 to account for decision-making, designing, and planning processes within the Council and the statutory consultation period, which would make 2028/29 the first full financial year revenue could be collected.

The CBA explores both a year-round levy and a seasonal levy scenario at different levy percentages, including sensitivity analyses for exemptions, decreases in rooms, and increases in costs. Each scenario is evaluated to understand how it might affect visitor revenue, local businesses, the local council and the community.

The analysis considers both the direct and indirect costs to the council and accommodation providers involved in setting up and managing the levy, as well as the potential financial benefits, which in turn could lead to social benefits from investment in Orkney's tourism economy. By looking at metrics like the Benefit-Cost Ratio (BCR) and Net Revenue, the report aims to provide a clear picture of the financial viability and overall benefits of each option. This will help stakeholders make an informed decision about the best approach to implementing a visitor levy in this area.

## Methodology

The methodology section outlines the approach taken to calculate the costs and benefits of the visitor levy. It includes the identification of direct and indirect costs, revenue projections, and the evaluation of unquantifiable benefits.

## Costs

### Year-round levy

#### Costs to local council

The following costs have been established by the Scottish Government in partnership with COSLA as well as discussions with early adopter local authorities who are in current consultation for the implementation of a visitor levy. These costs include:

**Consultation and Decision-Making:** This cost refers to the expenses incurred by the local authority in engaging with stakeholders, conducting public consultations, and making decisions about the visitor levy. It includes costs for organising meetings, hiring consultants, and other related activities. These costs are estimated to be £161,000 and include a 3<sup>rd</sup> year review of the levy scheme. This figure was estimated from costs provided by Orkney Islands Council and triangulated with other engagement findings from other local councils currently undertaking visitor levy feasibility analysis, the costs include: Scheme design, including impact assessments;

investment plan; statutory public consultation and internal governance (officer time), which total £83,000. Related comms including local press, social media, OIC website updates, and officer time, totalling £18,000. This also includes service and management support totalling £30,000 and a three-year review of the levy scheme totalling £30,000 or £10,000 every three years.

**Set Up Costs:** Set-up costs are the initial expenses required to establish and purchase the license of the Improvement Services<sup>1</sup> visitor levy system. This is a digital platform set up to support accommodation providers to submit returns and pay the levy, which would be remitted back to the Council. A one-off fee to purchase a licence to the system would be paid to Edinburgh Council, as they funded the development of the system.

The set up costs also include the cost of awareness campaigns to inform visitors and businesses about the new levy. As well as grant support for development and implementation for accommodation providers. The yearly set up costs are shown in Table 25.

**Administration Costs:** Ongoing administration costs are the expenses related to the continuous management and enforcement of the levy. These costs include a yearly payment to the Improvement Service for continued use of the visitor levy system license and operational expenses such as dealing with exemption requests and issues, as well as enforcement of payments.

The payment of the visitor levy license fee to the Improvement Service is £500,000. This fee will be split amongst all local authorities who sign up to the visitor levy scheme, based on a fair distribution system, such as how many accommodation providers they have or how much revenue they bring in, in comparison to the other local authorities within the scheme.

The method of distribution has not been finalised yet, so for this analysis, it has been calculated by simply splitting the £500,000 amongst the early adopter local authorities currently in consultation for a visitor levy scheme, equalling a total of £50,000 per year, decreasing slightly each year as more local authorities purchase the licence.

However, it must be noted that there is a risk that fewer local authorities will use the platform, increasing the yearly costs to Orkney Council. Alternatively, more local authorities may use the platform, decreasing the yearly costs to the Orkney Islands Council.

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<sup>1</sup> <https://www.improvementservice.org.uk/>

Total costs to the local Council for the 10-year implementation period and 3-year prior consultation period amount to £2,305,660.91, averaging £192,138.41 per annum. This assumes that the visitor levy would be start collecting revenue until 2028/29. A cost table (Table 25) has been provided below to show the full breakdown.

Table 25: Cost to council

Orkney	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
Consultation and Decision-Making	£30,000.00	£30,000.00	£29,000.00	£32,000.00	£10,000.00	£10,000.00	£0.00	£0.00	£10,000.00	£0.00	£0.00	£10,000.00	£0.00	£161,000.00
Set Up Costs	£0.00	£0.00	£92,500.00	£22,500.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£115,000.00
Administration Costs	£0.00	£0.00	£0.00	£56,500.00	£198,500.00	£211,000.00	£201,000.00	£208,035.00	£215,316.23	£222,852.29	£230,652.12	£238,724.95	£247,080.32	£2,029,660.91
Total	£30,000.00	£30,000.00	£121,500.00	£111,000.00	£208,500.00	£241,000.00	£201,000.00	£208,035.00	£215,316.23	£222,852.29	£230,652.12	£238,724.95	£247,080.32	£2,305,660.91

## Costs to local businesses

The following costs are based on a Scottish Government-conducted exercise with a cross-section of accommodation providers across Scotland to understand the potential costs associated with a visitor levy and to inform the Business and Regulatory Impact Assessment (BRIA). Further to this, the Scottish Government also conducted a survey of property management system providers. The following detail on costs to accommodation providers reflects the key messages and evidence gathered from these exercises, as well as responses to the stakeholder engagement.

**Set Up Costs (Excluding Property Management System (PMS) fee):** Costs which exclude PMS fees are costs associated with training existing staff on new systems or changes that have been made to existing systems; costs associated with testing or piloting any new systems before a visitor levy is required to be collected; and costs associated with renegotiating existing contracts with third parties (such as third-party booking platforms or online travel agents) where a commission is based on the price of accommodation sales, to exclude the cost of a visitor levy. These fees have been estimated using the lower bound of BRIA estimations due to the size of Orkney accommodation providers being small (1–2-person operation on average) and having lower costs. This equates to £2,000 per accommodation provider. Multiplying this by 600 the estimated number of leased accommodation in Orkney, becomes a total of £1,200,000 in set-up costs, excluding the one-off PMS set-up fees. This cost will be incurred in the year prior to implementation.

**Set Up Costs (One-off PMS fee):** Accommodation providers within local authorities where a visitor levy is introduced are likely to face some up-front set-up costs. Many accommodation providers use software to manage bookings and generate invoices for guests, for example. Most accommodation providers that use these systems will likely need to adapt these systems, potentially paying one-off fees to their suppliers. Any additional fees charged by property management system suppliers to adjust existing systems may vary depending on the type of provider (hotel, B&B, hostel, self-catering sector) and the commercial arrangement each accommodation provider has with their property management system supplier.

These fees have been estimated using the Scottish Government's BRIA lower bound range of values at £1,000 per accommodation provider. Multiplying this by 600, the estimated number of leased accommodations in Orkney, we get £600,000 in one-off PMS set-up fees. This cost will be incurred in the year prior to implementation. This fee does not include the costs of those businesses that do not currently use digital booking systems and may need to introduce them prior to the introduction of a levy.

**Administration Costs:** Administration costs taken on by accommodation providers. Include the costs associated with preparing regular remittance tax returns to the local authority (assuming one return per quarter). Costs associated with performing reconciliation exercises associated with tax returns and due diligence checks to ensure, for example, the correct visitor levy rate is applied to invoices. Costs associated with explaining to customers why a visitor levy has been added to their accommodation bill. These fees have been estimated on a basis of 8 hours of work per quarter at a wage of £20 per hour. Equalling £640 per accommodation provider per year.

The Scottish Government's BRIA upper bound range was £400 per accommodation provider (*as estimated by the Scottish Government's 2023 Business and Regulatory Impact Assessment*). Multiplying



£640 by 600 the estimated number of providers in Orkney, we get £384,000.00 in the first year of implementation. Adjusted for inflation over the 10-year implementation period, is the total of £4,504,854.97.

While accommodation providers do not agree that the BRIA £400 figure accurately reflects the true cost, which they suggest likely to be higher, in the absence of a reliable figure, we have calculated that accommodation providers would spend 1 day (8 hours) a quarter submitting a return – similar to the maximum reported to have been spend on a VAT return, and cost this 50% above the living wage to return £640. This is triangulated with the Improvement Service’s estimate that it would take 30 seconds to report each booking. This naturally would be higher for those accommodation who have lower digital literacy, but they can access the support OIC intend to provide, were the visitor levy to be implemented.

Total costs to the local businesses for the 10-year implementation period and 3-year prior consultation/set up period amount to £6,304,854.97, averaging roughly £484,988.84 per annum, split amongst 600 Orkney accommodation providers; this averages out at £808 per provider per year. A cost table (Table 26) has been provided below to show the full breakdown.

Table 26: Costs to Businesses

Orkney	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
Set Up costs (Excluding PMS)	£0.00	£0.00	£1,200,000.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£1,200,000.00
Set Up Costs (One-off PMS fee)	£0.00	£0.00	£600,000.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£600,000.00
Administration Costs/Ongoing Costs	£0.00	£0.00	£0.00	£384,000.00	£397,440.00	£411,350.40	£425,747.66	£440,648.83	£456,071.54	£472,034.05	£488,555.24	£505,654.67	£523,352.58	£4,504,854.97
Total	£0.00	£0.00	£1,800,000.00	£384,000.00	£397,440.00	£411,350.40	£425,747.66	£440,648.83	£456,071.54	£472,034.05	£488,555.24	£505,654.67	£523,352.58	£6,304,854.97

## Business reimbursement

Edinburgh Council will be implementing a 'business reimbursement' system where a 2% fee of the 5% levy charge, will be paid back to each accommodation provider per year to help cover the costs taken on by accommodation providers. This option also remains open to the Orkney Islands Council. The process for how this will be reimbursed has not been established yet. For this analysis, it has not included it within the official costings of the visitor levy but has been highlighted it to show the amount it would cost the council as well as net revenue returns, should it be introduced this is shown in Table 39. In Orkney, business reimbursement for the 10-year implementation period amounts to £5,857,539.75. This equates to £9,762.57 per business at £976.25 per year.

## Total costs

Cost	Value
Direct Costs Local Council	£2,305,660.91
Direct Costs Local Businesses (accommodation providers)	£6,304,854.97
Optimism Bias	£1,291,577.38
Leakage	£861,051.59
<b>Total Cost</b>	<b>£10,763,144.85</b>

Table 27: Total costs

## Economic impact adjustment factors

In order to gain a realistic of the costs, we must take into account economic adjustment factors. These factors are used in economic and financial analyses to account for various uncertainties and potential deviations from expected outcomes.

**Optimism Bias:** is the tendency to underestimate the costs of a project. In the context of a visitor levy, this means that initial projections might be overly optimistic about the revenue generated and the positive impacts on the local economy. The optimism bias factor adjusts the estimates to provide a more realistic and conservative assessment. Using HMT guidance, we have applied a 15% optimism bias to the total costs, as the costs were informed in consultation with local experts and desk research.

**Leakage:** The leakage factor adjusts the estimated costs to account for the costs that flows out of the administration and implementation of the programme. To account for this, a 10% leakage figure derived from The Social Value Engine "Applying Impact Adjustments" has been taken from the cost figure.

Total costs equate to £10,763,144.85. This includes £2,305,660.91 in direct costs to Orkney Islands Council, £6,304,854.97 in direct costs to local businesses, £1,291,577.38 in optimism bias and £861,051.59 in leakage.

## Seasonal levy

Seasonal levy costs follow the same structure and involve the same costings as the year-round levy; however, costs are only accounted for half of the year April – October.

### Costs to local council

**Consultation and Decision-Making:** This cost refers to the expenses incurred by the local authority in engaging with stakeholders, conducting public consultations, and making decisions about the visitor levy. It includes costs for organising meetings, hiring consultants, and other related activities. These costs are estimated to be £161,000 and include a 3<sup>rd</sup> year review of the levy scheme. This figure was estimated from costs provided by Orkney Islands Council, which include: Scheme design, including impact assessments; investment plan; statutory public consultation and internal governance (officer time), which total £83,000. Related comms including local press, social media, OIC website updates, and officer time, totalling £18,000. Service and management support totalling £30,000 and a three-year review of the levy scheme, totalling £30,000 or £10,000 every three years.

**Set Up Costs:** Set-up costs are the initial expenses required to establish and purchase the license of the Improvement Service's visitor levy system. This is a digital platform set up to support accommodation providers to submit returns and pay the levy, which would be remitted back to the Council. A one-off fee to purchase a licence to the system would be paid to Edinburgh Council, as they funded the development of the system.

The set up costs also includes the cost of awareness campaigns to inform visitors and businesses about the new levy. The yearly set up costs are shown in the table below.

**Administration Costs:** Ongoing administration costs are valued at half of the administration costs of the full-time levy, due to it only being operational for half of the year. This equates to £1,014,830.46 adjusted for inflation for the 10-year implementation period. However, seasonal staffing of this may prove challenging.

Total costs to the local Council for the 10-year implementation period and 3-year prior consultation period amount to £1,290,830.45, averaging roughly £107,570.04 per annum. A cost table has been provided below to show the full breakdown.

Table 28: Seasonal costs to Council

Orkney	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
Consultation and Decision-Making	£30,000.00	£30,000.00	£29,000.00	£32,000.00	£10,000.00	£10,000.00	£0.00	£0.00	£10,000.00	£0.00	£0.00	£10,000.00	£0.00	£161,000.00
Set Up Costs	£0.00	£0.00	£92,500.00	£22,500.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£115,000.00
Administration Costs	£0.00	£0.00	£0.00	£28,250.00	£99,250.00	£105,500.00	£100,500.00	£104,017.50	£107,658.11	£111,426.15	£115,326.06	£119,362.47	£123,540.16	£1,014,830.45
Total	£30,000.00	£30,000.00	£121,500.00	£82,750.00	£109,250.00	£135,500.00	£100,500.00	£104,017.50	£107,658.11	£111,426.15	£115,326.06	£119,362.47	£123,540.16	£1,290,830.45

## Costs to local businesses

**Set Up Costs (Excluding PMS fee):** Set up costs, excluding the PMS fee for the year-round levy, are the same as the set up costs for the seasonal levy. This is equal to £1,200,000.

**Set Up Costs (One-off PMS fee):** Set up costs, excluding the PMS fee for the year-round levy, are the same as the set up costs for the seasonal levy. This is equal to £600,000.

**Administration Costs:** Administration costs of the seasonal levy are estimated to be 50% of the administration costs of the year-round levy. Administration costs taken on by accommodation providers include the costs associated with preparing regular remittance tax returns to the local authority (assuming one return per quarter). Costs associated with performing reconciliation exercises associated with tax returns and due diligence checks to ensure, for example, the correct visitor levy rate is applied to invoices. Costs associated with explaining to customers why a visitor levy has been added to their accommodation bill. These fees have been estimated on a basis of 8 hours of work per quarter at a wage of £20. Equalling £320 per accommodation provider per year.

The Scottish Government's BRIA upper bound range of £400 per accommodation provider for a full year so £200 for half a year (as estimated by the Scottish Government's 2023 Business and Regulatory Impact Assessment), multiplying £320 by 600 the estimated number of leased accommodations in Orkney, we get £192,000.00 in the first year of implementation. Adjusted for inflation over the 10-year implementation period, is the total of £2,252,427.48.

While accommodation providers do not agree that the BRIA £400 figure accurately reflects the true cost, which they suggest likely to be higher, in the absence of a reliable figure, we have calculated that accommodation providers would spend 1 day (8 hours) a quarter submitting a return – similar to the maximum reported to have been spend on a VAT return, and cost this 50% above the living wage to return £320. This is triangulated with the Improvement Service 's estimate that it would take 30 seconds to report each booking. This naturally would be higher for those accommodation who have lower digital literacy, but they can access the support OIC intend to provide, were the visitor levy to be implemented.

A cost table (Table 29) has been provided below to show the full breakdown.

Table 29: Seasonal Costs to Businesses

Orkney Seasonal	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
Set Up costs (Excluding PMS)	£0.00	£0.00	£1,200,000.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£1,200,000.00
Set Up Costs (One-off PMS fee)	£0.00	£0.00	£600,000.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£600,000.00
Administration Costs/Ongoing Costs	£0.00	£0.00	£0.00	£192,000.00	£198,720.00	£205,675.20	£212,873.83	£220,324.42	£228,035.77	£236,017.02	£244,277.62	£252,827.34	£261,676.29	£2,252,427.49
Total	£0.00	£0.00	£1,800,000.00	£192,000.00	£198,720.00	£205,675.20	£212,873.83	£220,324.42	£228,035.77	£236,017.02	£244,277.62	£252,827.34	£261,676.29	£4,052,427.49



## Business reimbursement

Edinburgh Council will be implementing a 'business reimbursement' system where a 2% fee of the 5% levy charge, will be paid back to each accommodation provider per year. This option also remains open to Orkney Islands Council. The process for how this will be reimbursed has not been established yet. For this analysis, it has not included it within the official costings of the visitor levy but has been highlighted it to show the amount it would cost the council, as well as net revenue returns, should it be introduced this is shown in Table 42. Potential business reimbursement for the seasonal levy scheme is lower than that of the year-round levy due to the lower visitor revenue associated with only operating for 6 months of the year.

In Orkney, business reimbursement for the 10-year implementation period amounts to £4,180,866.97. This equates to £3,092.36 per business at £309.23 per year.

## Total costs

In order to gain a realistic figure for the costs, we must take into account economic adjustment factors. These factors are used in economic and financial analyses to account for various uncertainties and potential deviations from expected outcomes. Optimism bias and leakage were applied at the same rate as the year-round levy.

Total costs equate to £6,679,072.43. This includes £1,290,830.45 in direct costs to the council and £4,052,427.49 in direct costs to local businesses, optimism bias of £801,488.69 and leakage of £534,325.79.

Cost	Value
Direct Costs Local Council	£1,290,830.45
Direct Costs Local Businesses (accommodation providers)	£4,052,427.49
Optimism Bias	£801,488.69
Leakage	£534,325.79
<b>Total Cost</b>	<b>£6,679,072.43</b>

Table 30: Seasonal Total Costs

## Unquantifiable costs

The following is a list of unquantifiable costs which have not been included in our analysis but may need to be investigated further to produce more robust costings of the visitor levy scheme:

- VAT Implications: For businesses near the VAT threshold, the inclusion of levy income could push them over the limit, resulting in increased costs and accounting obligations leading to potential financial strain on small businesses and further research should be carried out in this area to quantify this accurately.
- Change in the number of accommodation providers: In the public engagement concerns were highlighted that if an accommodation levy were to be progressed, some

accommodation providers would cease operating or operate at a reduced capacity. Similar concerns were also raised concerning the short-term let licensing, which did not materialise according to our consultation with stakeholders. This has been accounted for in the sensitivity analysis regarding decreases in accommodation providers.

- **Economic Displacement:** Redistribution of visitor spending to areas outside the levy region. Negative impact on local businesses and the wider Orkney economy if visitors choose alternative destinations. Accountancy and consultancy firm Saffery, commissioned by the Highland Hotels Association, modelled the impact of a 6% price increase (5% levy plus VAT) and projected a 7% drop in occupancy. This figure is likely to be higher in rural areas, as the analysis included a large number of urban Inverness hotels, where a greater proportion of stays are linked to business travel—typically less sensitive to price changes.
- **Social and Community Impact:** Potential resistance or dissatisfaction among local residents and businesses. Changes in community dynamics due to the introduction of the levy. Whilst levy avoidance would be illegal, compliance with the levy would be hard to enforce if, for example, providers changed their cost structure such that the final price was 25% accommodation and 75% parking/breakfast/cleaning fee.
- **Environmental Impact:** Possible unintended consequences on local ecosystems if visitor patterns change. Increased pressure on certain areas if visitors avoid regions with the levy.
- **Equality Impact:** Potential for the levy to disproportionately affect certain groups, such as low-income visitors or small business owners, leading to increased financial strain and reduced accessibility. Further research is needed to understand and mitigate these impacts to ensure the levy is implemented fairly.

## Benefits

### Year-round levy

#### Visitor revenue

The main benefit of this visitor levy scheme is visitor revenue. This is charged as a percentage of the cost of accommodation (and does not include additional expenses, such as food). Visitor revenue has been calculated using the following calculations:

*Number of rooms x Number of days in period x Occupancy rate = Nights booked*

*Nights booked x Cost per night = Total accommodation cost*

*Total charge \* Levy percentage = Revenue*

The number of days was taken to be 365 days for the year-round levy. The number of rooms was calculated from short-term let licence data from Orkney, combined with the number of caravans and hotels and B&Bs in Orkney, totalling an estimated 2,823 rooms in Orkney. As the exact number of rooms available across Orkney could not be accurately calculated, or forecasted over the next 10 years, economic adjustments, which are discussed below, were applied.

Occupancy was estimated using Airdna data of the average occupancy of accommodations in 2024. The average occupancy across 2024 was 69%. As this is an average figure, and does not

include all accommodation types, therefore economic adjustments were applied, which are discussed below.

Inflation of 3.5% has been assumed on the cost of accommodation over the 10 years.

### Economic impact adjustment factors

In order to gain a realistic and conservative figure for visitor revenue, we must take into account economic adjustment factors such as Deadweight, Substitution Effect, Displacement, Optimism Bias, and Leakage. These factors are used in economic and financial analyses to account for various uncertainties and potential deviations from expected outcomes. The following percentages were applied to each adjustment factor based on government and social value engine guidance<sup>2</sup> and present a “moderate” approach, reasoning for each is provided below.

**Deadweight:** Refers to the portion of the levy revenue that would have been generated even without the levy. In the context of a visitor levy, this means that some visitors would have spent money in the local economy regardless of the levy being in place. The deadweight factor accounts for this by reducing the estimated benefits to reflect the revenue that is not directly attributable to the levy itself. A deadweight figure of 10% derived from the UK Government’s “Additionality Guide”<sup>3</sup>.

**Substitution Effect:** The Substitution Effect occurs when visitors change their spending habits due to the introduction of the levy. For example, as the levy increases the cost of accommodation, visitors might choose cheaper alternatives or reduce their spending on other activities. This effect accounts for the shift in spending patterns. To account for this, we used Scottish Enterprise’s “Economic Impact Assessment Guidance”<sup>4</sup> to derive a figure of 5%.

**Displacement:** Displacement refers to the negative impact on other areas or sectors due to the introduction of the levy. In the context of this visitor levy, displacement might occur if visitors choose to stay in regions without the levy, thereby reducing revenue in the area where the levy is applied. To account for this factor, using Scottish Enterprise’s “Economic Impact Assessment Guidance we adjust the visitor revenue figures by 15% to account for the potential loss of visitors to other destinations.

**Optimism Bias:** is the tendency to overestimate the benefits and underestimate the costs of a project. In the context of a visitor levy, this means that initial projections might be overly optimistic about the revenue generated and the positive impacts on the local economy. The optimism bias factor adjusts the estimates to provide a more realistic and conservative

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<sup>2</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191511/Additionality\\_Guide\\_o.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191511/Additionality_Guide_o.pdf)

<sup>3</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191511/Additionality\\_Guide\\_o.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191511/Additionality_Guide_o.pdf)

<sup>4</sup> <https://www.scottish-enterprise.com/media/oarf4uam/working-paper-7-economic-impact-appraisal-2008-2018-grossed-results.pdf>

assessment. With this in mind, using the UK Government’s “Additionality Guide”<sup>5</sup> we have applied a 20% optimism bias on the visitor revenue figures.

**Leakage:** Leakage refers to the portion of the levy revenue that does not stay within the local economy. This can happen if the funds are spent on goods and services sourced from outside the region or if visitors spend money in ways that do not benefit the local community directly. The leakage factor adjusts the estimated benefits to account for the revenue that flows out of the local economy. To account for this, a 10% leakage figure derived from The Social Value Engine “Applying Impact Adjustments” has been taken from the visitor revenue figure.

The total benefits for each percentage levy scenario by year, including all economic adjustments, are illustrated in the table below.

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<sup>5</sup>  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191511/Additionality\\_Guide\\_o.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191511/Additionality_Guide_o.pdf)

Table 31: Annual revenue from year-round levy by levy percentage, adjusted

Orkney year-round	2025 /26	2026 /27	2027/ 28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
Revenue 1% levy				£249,652.35	£258,390.18	£267,433.84	£276,794.02	£286,481.81	£296,508.68	£306,886.48	£ 317,627.51	£328,744.47	340,250.53	£2,928,769.87
Revenue 3% levy				£748,957.05	£775,170.55	£802,301.52	£830,382.07	£859,445.44	£889,526.03	£920,659.44	£952,882.52	£986,233.41	£1,020,751.58	£8,786,309.61
Revenue 5% levy				£1,248,261.75	£1,291,950.91	£1,337,169.19	£1,383,970.12	£1,432,409.07	£1,482,543.39	£1,534,432.41	£1,588,137.54	£1,643,722.35	£1,701,252.64	£14,643,849.37
Revenue 7% levy				£1,747,566.45	£1,808,731.28	£1,872,036.87	£1,937,558.16	£2,005,372.70	£2,075,560.74	£2,148,205.37	£2,223,392.56	£2,301,211.30	£2,381,753.69	£20,501,389.12
Revenue 9% levy				£2,246,871.15	£2,325,511.64	£2,406,904.55	£ 2,491,146.21	£2,578,336.33	£2,668,578.10	£2,761,978.33	£2,858,647.57	£2,958,700.24	£3,062,254.75	£26,358,928.87

# Seasonal levy

## Visitor revenue

Similarly to the year-round levy, the main benefit of this visitor levy scheme is visitor revenue. Visitor revenue was calculated the same way as the year-round levy, but the number of days was taken to be 214 days for the seasonal levy.

Occupancy was estimated using Airdna data of the average occupancy of accommodations in 2024 from April to October. The average occupancy from April to October across 2024 was 84%, which is higher than the year-round levy as this is peak tourism season for Orkney. As this is an average figure, and does not include all accommodation types, economic adjustments were applied, which are discussed below.

## Economic adjustment factors

The same economic adjustment factors for the seasonal levy have been used as for the year-round levy to help provide a more accurate and realistic assessment of the net benefits of implementing a visitor levy by accounting for various economic and behavioural influences. As before, the following percentages were applied to each adjustment factor based on government and social value engine guidance and present a “moderate” approach.

**Deadweight:** A deadweight figure of 10% of the visitor revenue has been used.

**Substitution Effect:** A substitution effect adjusts the visitor revenue figure by 5%.

**Displacement:** To account for this factor, we adjust the visitor revenue figure by 15% to account for the potential loss of visitors to other destinations.

**Optimism Bias:** The optimism bias factor adjusts the estimates to provide a more realistic and conservative assessment. With this in mind, we have applied a 20% optimism bias on the visitor revenue figure.

**Leakage:** A 10% leakage figure has been taken from the visitor revenue figure.

The total benefits for each percentage levy scenario by year, including all economic adjustments, are illustrated in the table below.

Table 32: Annual revenue for seasonal levy by levy percentage, adjusted

Orkney seasonal	2025 /26	2026 /27	2027/ 28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
Revenue 1% levy				£178,191.41	£184,428.11	£190,883.09	£197,564.00	£204,478.74	£211,635.50	£219,042.74	£226,709.24	£234,644.06	£242,856.60	£2,090,433.49
Revenue 3% levy				£534,574.23	£553,284.33	£572,649.28	£592,692.00	£613,436.22	£634,906.49	£657,128.22	£680,127.71	£703,932.18	£728,569.80	£6,271,300.46
Revenue 5% levy				£890,957.05	£922,140.54	£954,415.46	£987,820.00	£1,022,393.70	£1,058,177.48	£1,095,213.70	£1,133,546.18	£1,173,220.29	£1,214,283.00	£10,452,167.40
Revenue 7% levy				£1,247,339.87	£1,290,996.76	£1,336,181.65	£1,382,948.01	£1,431,351.19	£1,481,448.48	£1,533,299.17	£1,586,964.65	£1,642,508.41	£1,699,996.20	£14,633,034.39
Revenue 9% levy				£1,603,722.69	£1,659,852.98	£1,717,947.83	£1,778,076.01	£1,840,308.67	£1,904,719.47	£1,971,384.65	£2,040,383.12	£2,111,796.53	£2,185,709.40	£18,813,901.35



## Unquantifiable benefits

The net proceeds from the visitor levy must be used to support the objectives of the visitor levy scheme, which include developing, supporting, and sustaining facilities and services for visitors. As these objectives and related investment plan have yet to be developed and adopted, the wider benefits of the scheme cannot be quantified at present. However, these benefits may include:

- **Enhanced Visitor Experience:** Higher quality services and facilities for tourists leading to increased satisfaction and likelihood of repeat visits.
- **Support for Local Tourism Businesses:** Grants, training, and advice for local businesses leading to strengthening the local economy and creating jobs.
- **Environmental Conservation:** Funding for conservation projects and sustainable practices. Protection of natural landscapes and wildlife.
- **Community Development:** Investment in community projects and initiatives leading to improved quality of life for residents.
- **Cultural Preservation:** Support for cultural heritage sites and events. Promotion of local traditions and history.
- **Improved Infrastructure:** Enhanced roads, public toilets, signage, and footpaths leading to better maintenance and development of local amenities.

It should be noted that the benefits listed above require the income from any visitor levy to be significantly higher than the costs associated with administering the levy. If sufficient excess income cannot be obtained for investment into infrastructure etc, then developing benefits requiring investment will not be possible.

## Results and sensitivities

This section explores the year-round and seasonal scenario for implementing the visitor levy and conducts a sensitivity analysis to understand how changes in key variables affect the outcomes. Each scenario represents a different approach to applying the levy, and the sensitivity analysis tests the robustness of the results under varying conditions.

The table below demonstrates the annual net revenue from a year-round visitor levy set at 1%, 3%, 5%, 7%, and 9%. The net revenue is the total revenue, minus all the costs incurred by the council and the local businesses.

Table 33: Annual balance, year-round levy

Orkney year round	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
1% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	-£369,097.65	-£499,034.82	-£548,004.16	-£506,640.56	-£524,372.98	-£542,726.03	-£561,721.44	-£581,381.69	-£601,730.05	-£622,790.60	-£7,834,374.98
3% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£130,207.05	£17,745.55	-£13,136.48	£46,947.49	£48,590.65	£50,291.32	£52,051.52	£53,873.32	£55,758.89	£57,710.45	-£1,976,835.24
5% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£629,511.75	£534,525.91	£521,731.19	£600,535.54	£621,554.28	£643,308.68	£665,824.48	£689,128.34	£713,247.83	£738,211.51	£3,880,704.51
7% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£1,128,816.45	£1,051,306.28	£1,056,598.87	£1,154,123.58	£1,194,517.91	£1,236,326.04	£1,279,597.45	£1,324,383.36	£1,370,736.77	£1,418,712.56	£9,738,244.27
9% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£1,628,121.15	£1,568,086.64	£1,591,466.55	£1,707,711.63	£1,767,481.54	£1,829,343.39	£1,893,370.41	£1,959,638.37	£2,028,225.72	£2,099,213.62	£15,595,784.02

The analysis indicates that a 1% and 3% year-round levy will not generate a positive net revenue over a 10-year implementation period.

Due to the set-up and consultation costs which will be incurred in the years preceding the collection of a potential levy, significant capital will be at risk prior to making returns from a visitor levy. For the 3% levy, net revenue is minimal and actually sees it go from positive to negative in year 3 of the implementation period due to the three-year review costs.

After the 10 year implementation period, a visitor levy at 5% or greater is profitable. At implementation year-10 (2037/38), a 5% levy will generate £3,880,704.52 in net revenue, and a 7% levy is estimated to generate £9,738,244.27. A 9% levy is estimated to generate £15,595,784.02.

The Net present value (NPV) and Cost Benefit Ratio (BCR) of the visitor levy at different percentages over the 10-year implementation is summarised in the table below. Both the 1% and 3% visitor levy have negative NPVs, indicating that a visitor levy at these percentages is not expected to generate net benefits for Orkney.

Table 34: Key findings, year-round levy

Levy percentage	Net present value	BCR
1% Levy	-£7,834,374.98	0.27
3% Levy	-£1,976,835.23	0.82
5% Levy	£3,880,704.52	1.36
7% Levy	£9,738,244.27	1.90
9% Levy	£15,595,784.02	2.45

In comparison, the 5%, 7%, and 9% levies have positive NPVs and BCRs greater than 1 after 10 years, which suggests that the levy at these rates is a worthwhile investment, as it is likely to provide a return on investment and contribute positively to the local economy.

However, due to the set-up and consultation costs which will be incurred in the years preceding the collection of a potential levy, significant capital will be at risk prior to making returns from a visitor levy. For the council this figure amounts to £181,500.00 before the levy is collected. There are significantly higher costs to businesses prior to implementation.

A benefit-cost ratio (BCR) greater than 1 indicates that a project will generate more benefits than costs it incurs. The 5% levy is the lowest levy percentage which has a BCR greater than 1. For example, the 5% levy has a BCR of 1.36, which indicates that for every £1 spent, it is expected to generate £1.36 in benefits. Following the Green Book standard for project evaluation<sup>6</sup>, a BCR between 1 and 1.5 is considered ‘acceptable’. This positive ratio suggests that the visitor levy

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<sup>6</sup> <https://www.gov.uk/government/publications/dluhc-appraisal-guide/dluhc-appraisal-guide#vfm-categories>

project at a 5% levy or higher can deliver a favourable return on investment and contribute positively to the local economy.

To show the effects of having a 2% business reimbursement scheme as discussed on page 77. Annual net revenue from a year-round visitor levy set at 1%, 3%, 5%, 7%, and 9%, including the reimbursement costs, is shown in the table below.

Table 35- Annual balance, year-round levy, including business reimbursement

Orkney year round	2025/2 6	2026/2 7	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
1% Levy	- £37,500.0 0	- £37,500.0 0	- £2,401,875.0 0	- £954,851.62	- £1,084,788.7 9	- £1,133,758.1 4	- £1,092,394.5 3	- £1,110,126.9 5	- £1,128,480.0 1	- £1,147,475.4 2	- £1,167,135.6 7	- £1,187,484.0 3	- £1,208,544.5 8	- £13,691,914. 74
3% Levy	- £37,500.0 0	- £37,500.0 0	- £2,401,875.0 0	- £455,546.92	- £568,008.43	- £598,890.46	- £538,806.49	-£537,163.32	-£535,462.65	- £533,702.45	-£531,880.65	- £529,995.08	-£528,043.52	- £7,834,374.9 7
5% Levy	- £37,500.0 0	- £37,500.0 0	- £2,401,875.0 0	£43,757.78	-£51,228.06	-£64,022.78	£14,781.56	£35,800.31	£57,554.71	£80,070.51	£103,374.37	£127,493.86	£152,457.53	- £1,976,835.2 1
7% Levy	- £37,500.0 0	- £37,500.0 0	- £2,401,875.0 0	£543,062.48	£465,552.30	£470,844.90	£568,369.61	£608,763.93	£650,572.06	£693,843.47	£738,629.38	£784,982.80	£832,958.59	£3,880,704. 52
9% Levy	- £37,500.0 0	- £37,500.0 0	- £2,401,875.0 0	£1,042,367.1 8	£982,332.67	£1,005,712.5 8	£1,121,957.65	£1,181,727.5 6	£1,243,589.4 2	£1,307,616.4 3	£1,373,884.4 0	£1,442,471.7 4	£1,513,459.6 4	£9,738,244.2 7

The analysis indicates that if a business reimbursement scheme of 2% were introduced along with the visitor levy, only a levy of 7 and 9% would generate a positive net revenue over a 10-year implementation period.

Seasonal levy

The table below demonstrates the annual net revenue from seasonal visitor levy set at 1%, 3%, 5%, 7%, and 9%. The net revenue is the total revenue minus all the costs incurred by the council and the local businesses.

Table 36: Annual balance, seasonal levy

Orkney seasonal	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
1% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	-£165,246.09	-£200,534.39	-£235,585.91	-£194,153.29	-£200,948.65	-£207,981.86	-£215,261.22	-£222,795.36	-£230,593.20	-£238,663.96	-£238,663.96
3% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£191,136.73	£168,321.83	£146,180.28	£200,974.71	£208,008.83	£215,289.14	£222,824.26	£230,623.11	£238,694.91	£247,049.24	£247,049.24
5% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£547,519.55	£537,178.04	£527,946.46	£596,102.71	£616,966.31	£638,560.13	£660,909.74	£684,041.58	£707,983.03	£732,762.44	£732,762.44
7% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£903,902.37	£906,034.26	£909,712.65	£991,230.72	£1,025,923.79	£1,061,831.12	£1,098,995.21	£1,137,460.05	£1,177,271.15	£1,218,475.64	£1,218,475.64
9% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£1,260,285.19	£1,274,890.48	£1,291,478.83	£1,386,358.72	£1,434,881.27	£1,485,102.12	£1,537,080.69	£1,590,878.52	£1,646,559.26	£1,704,188.84	£1,704,188.84

Similar to the year-round levy, the seasonal levy does not generate net benefits at 1% or 3% across a 10-year implementation period. In comparison, the 5%, 7%, and 9% levies have positive NPVs, which suggests that the levy at these rates is a worthwhile investment, as it is likely to provide a positive return on investment and contribute to the local economy. For example, a seasonal visitor levy of 5% is expected to generate a total of £3,773,094.99 over the 10-year implementation period. A 7% levy is estimated to generate £7,953,961.95. A 9% levy is estimated to generate £12,134,828.92.

Table 37: Key findings, seasonal levy

Levy percentage	Net present value	BCR
1% Levy	-£4,588,638.94	0.31
3% Levy	-£407,771.98	0.94
5% Levy	£3,773,094.99	1.56
7% Levy	£7,953,961.95	2.19
9% Levy	£12,134,828.92	2.82

Similar to the year-round levy, it must be highlighted that capital will be at risk due to the costs incurred in the set-up and consultation activities before the revenue starts to be collected.

The 5% levy is the lowest levy percentage which has a BCR greater than 1. For example, the 5% levy has a BCR of 1.56, which indicates that for every £1 spent, it is expected to generate £1.56 in benefits. Following the Green Book standard for project evaluation<sup>7</sup>, a BCR between 1.5 and 2 is considered 'medium'. A BCR between 2 and 4, seen in the 7% and 9% levy, is considered 'high'.

These BCRs suggests that the visitor levy project at a 5% levy or higher can deliver a favourable return on investment and contribute positively to the local economy.

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<sup>7</sup> <https://www.gov.uk/government/publications/dluhc-appraisal-guide/dluhc-appraisal-guide#vfm-categories>



To show the effects of having a 2% business reimbursement scheme as discussed on page 82. Annual net revenue from a year-round visitor levy set at 1%, 3%, 5%, 7%, and 9%, including the reimbursement costs, is shown in the table below.

Table 38 - Annual balance, seasonal levy including business reimbursement

Orkney seasonal	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	Total
1% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	-£583,332.79	-£618,621.09	-£653,672.60	-£612,239.99	-£619,035.35	-£626,068.55	-£633,347.92	-£640,882.06	-£648,679.90	-£656,750.66	-£8,769,505.91
3% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	-£226,949.97	-£249,764.87	-£271,906.42	-£217,111.98	-£210,077.87	-£202,797.56	-£195,262.44	-£187,463.59	-£179,391.78	-£171,037.46	-£4,588,638.94
5% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£129,432.85	£119,091.35	£109,859.77	£178,016.02	£198,879.61	£220,473.43	£242,823.04	£265,954.88	£289,896.33	£314,675.74	-£407,771.98
7% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£485,815.67	£487,947.57	£491,625.95	£573,144.02	£607,837.09	£643,744.43	£680,908.52	£719,373.35	£759,184.45	£800,388.94	£3,773,094.99
9% Levy	-£37,500.00	-£37,500.00	-£2,401,875.00	£842,198.49	£856,803.78	£873,392.14	£968,272.02	£1,016,794.58	£1,067,015.42	£1,118,994.00	£1,172,791.82	£1,228,472.57	£1,286,102.14	£7,953,961.96

The analysis indicates that if a business reimbursement scheme of 2% were introduced along with the visitor levy, only a levy of 5%, 7% and 9% would generate a positive net revenue over a 10-year implementation period.

## Scenarios and sensitivities

Sensitivity analysis tests the robustness of the results by varying key assumptions and parameters. This helps to understand how changes in these variables affect the outcomes and provides insights into the potential risks and uncertainties.

### Year-round levy sensitivity tests

#### Exemptions

The legislation allows local authorities to grant exemptions on who has to pay the overnight accommodation levy. In the public engagement sessions and survey, it was clearly highlighted that there is an expectation that Orkney residents should be exempt from paying a levy. Participants also indicated that those seeking medical treatment and children and young people should also be exempt. Additionally, exemptions might be considered for long-term visitors who stay beyond a certain number of days, promoting extended stays and deeper engagement with the local community. This would be in addition to the statutory exemptions, such as for those receiving certain disability benefits, outlined in the legislation.

It is important to note that those who are exempt would have to pay the levy in the first instance and then retrospectively claim the money back from the council.

As the exemptions would be decided during the development of the scheme, the percentage of stays that would be exempt cannot currently be estimated with available data. As a result, the table below provides a summary of the net revenue from a 1%, 5%, and 7% visitor levy, with different scenarios demonstrating no exemptions, and 10%, 20%, 30%, and 40% of stays being exempt from the levy.

Table 39: Exemptions sensitivity analysis, year-round levy

1% Orkney Year-Round	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£2,928,769.87	£2,635,892.89	£2,343,015.90	£2,050,138.91	£1,757,261.92
Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits-total costs)	-£7,834,374.98	-£8,127,251.97	-£8,420,128.95	-£8,713,005.94	-£9,005,882.93
5% Orkney Year-round	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£14,643,849.37	£13,179,464.44	£11,715,079.50	£10,250,694.56	£8,786,309.62

Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits- total costs)	£3,880,704.52	£2,416,319.58	£951,934.65	-£512,450.29	-£1,976,835.23
<b>7% Orkney Year-round</b>	<b>No exemptions</b>	<b>10% exempt</b>	<b>20% exempt</b>	<b>30% exempt</b>	<b>40% exempt</b>
Revenue	£20,501,389.12	£18,451,250.21	£16,401,111.30	£14,350,972.39	£12,300,833.47
Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits- total costs)	£9,738,244.27	£7,688,105.36	£5,637,966.45	£3,587,827.53	£1,537,688.62

As can be seen, at all exemption levels for the 1% levy net revenue is negative and continues to decrease. If 30% or more of stays are exempt at the 5% levy rate, then the net revenue is negative. At 7% levy rate more than 40% of visitors can be exempt, and net revenue will still be positive. This provides a baseline overview however, further analysis should be done to get a full understanding of how many visitors may be exempt under any proposed exemptions.

### Decrease in rooms

The following test is to show the effect on revenue of reducing the number of rooms available would have if a visitor levy been introduced. The reason for this test is that many stakeholders said they would consider closing down due to the increased cost and time effort the legislation would bring. However, stakeholders involved in the short-term let licence, which saw similar threats, revealed that the decrease in providers was not realised in their case.

The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no decrease, 10% and 20% decrease in the number of rooms available across Orkney.

Table 40: Decrease in rooms sensitivity test, year-round levy

Orkney Year-round	No Decrease	10% Decrease ↓	20% Decrease ↓
Revenue	£14,643,849.37	£11,648,337.06	£10,354,077.39
Total costs	£10,763,144.85	£10,763,144.85	£10,763,144.85
Net revenue (Total benefits-total costs)	£3,880,704.52	£885,192.21	-£409,067.46

As the percentage of rooms decreases, we see revenue fall, resulting in lower net revenue. If there is a 20% decrease in the number of rooms, the net revenue of the 5% visitor levy is negative. Again, this highlights a significant risk if the decrease in available rooms was realised. For example, if

accommodation providers shortened their seasons to stay below the VAT threshold or if accommodation providers ceased operating due to the increased administration work created from the levy.

## Increase in costs

The following test is to show the effect on net revenue should the costs of introducing the visitor levy increase. The reason for this test is to test the robustness of the levy scheme due to a number of both council and accommodation costs not being finalised as of yet. The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no increase, 10% and 20% increases. As total costs increase, net revenue falls.

Table 41: Increase in costs sensitivity analysis, year-round levy

Orkney Year-round	No Increase	10% Increase ↑	20% Increase ↑
Revenue	£14,643,849.37	£14,643,849.37	£14,643,849.37
Total costs	£10,763,144.85	£11,839,459.34	£12,915,773.82
Net revenue (Total benefits-total costs)	£3,880,704.52	£2,804,390.04	£1,728,075.55

## Seasonal sensitivity tests

### Exemptions

Similar to the year-round levy, any exemptions would be decided during the development of the scheme, the percentage of stays that would be exempt cannot currently be estimated with available data. As a result, the table below provides a summary of the net revenue from a 1%, 5% and 7% seasonal visitor levy, with different scenarios demonstrating no exemptions, and 10%, 20%, 30%, and 40% of stays being exempt from the levy. As can be seen, at 1%, net revenue is negative at all exemption levels. If 40% of stays are exempt from the 5% levy, this has a negative net revenue over the 10-year period. At the 7% levy rate, net revenue is positive at all exemption levels.

Table 42: Exemptions sensitivity analysis, seasonal levy

1% Orkney seasonal	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt
Revenue	£2,090,433.48	£1,881,390.13	£1,672,346.79	£1,463,303.44	£1,254,260.09
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits-total costs)	-£4,588,638.94	-£4,797,682.29	-£5,006,725.64	-£5,215,768.99	-£5,424,812.34
5% Orkney seasonal	No exemptions	10% exempt	20% exempt	30% exempt	40% exempt

Revenue	£10,452,167.42	£9,406,950.67	£8,361,733.93	£7,316,517.19	£6,271,300.45
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits- total costs)	£3,773,094.99	£2,727,878.25	£1,682,661.51	£637,444.76	-£407,771.98
<b>7% Orkney seasonal</b>	<b>No exemptions</b>	<b>10% exempt</b>	<b>20% exempt</b>	<b>30% exempt</b>	<b>40% exempt</b>
Revenue	£14,633,034.38	£13,169,730.94	£11,706,427.51	£10,243,124.07	£8,779,820.63
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits- total costs)	£7,953,961.95	£6,490,658.52	£5,027,355.08	£3,564,051.64	£2,100,748.20

### Decrease in rooms

The following test is to show the effect on revenue of reducing the number of rooms available would have if a visitor levy been introduced. The reason for this test is that many stakeholders said they would consider closing down due to the increased cost and time effort the legislation would bring. The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no decrease, 10% and 20% decreases.

Table 43: Decrease in rooms sensitivity test, seasonal levy

Orkney Seasonal	No Decrease	10% Decrease ↓	20% Decrease ↓
Revenue	£10,452,167.42	£8,314,095.97	£7,390,307.53
Total costs	£6,679,072.43	£6,679,072.43	£6,679,072.43
Net revenue (Total benefits-total costs)	£3,773,094.99	£1,635,023.55	£711,235.10

As the percentage of rooms decreases, we see revenue fall, resulting in lower net revenue.

### Increase in costs

The following test is to show the effect on net revenue should the costs of introducing the visitor levy increase. The reason for this test is to test the robustness of the levy scheme due to a number of both council and accommodation costs not being finalised as of yet. The table below provides a summary of the net revenue from a 5% visitor levy, with different scenarios demonstrating no increase, 10% and 20% increase in costs.

Table 44: Increase in costs sensitivity test, seasonal levy

Orkney Seasonal	No Increase	10% Increase ↑	20% Increase ↑
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Revenue	£10,452,167.42	£10,452,167.42	£10,452,167.42
Total costs	£6,679,072.43	£7,346,979.67	£8,014,886.91
Net revenue (Total benefits-total costs)	£3,773,094.99	£3,105,187.75	£2,437,280.50

As total costs increase, net revenue falls.

## Limitations which may require further consideration

The cost benefit analysis has provided a robust analysis of all quantifiable costs and benefits from the available data. However, it is generally accepted that this methodology is limited by the fact that not all costs and benefits can be quantified, and it can be difficult to account for all variables which may affect potential costs and benefits. For example, an external shock affecting the tourism sector, such as the Covid-19 pandemic, cannot be predicted and would significantly affect the models.

## Different approach per island group

Although the Western Isles, Shetland and Orkney Island Councils have jointly commissioned this research, bespoke analysis has been done for each local authority. During the engagement, it was recognised that taking a unified approach across the island authorities may create an ‘economy of scale’, reducing administrative costs if all three local authorities jointly agreed to implement the same scheme.

However, a digital service for collecting the overnight accommodation visitor levy is being developed by the Improvement Service. Local authorities will be able to pay a one-off cost and an annual fee to the Improvement Service for access to this digital platform which will allow accommodation providers to quickly submit a return, and the money will be remitted back to the local authorities. This service will provide customer service and technical support, administer payments, and enforcement. However, time and resources will still be required from the local authorities to support the implementation and administration of the visitor levy.

As the feasibility of the visitor levy is being analysed in the present commission, it is not prudent to assume that any number of the island authorities would take the same approach, should a visitor levy be adopted. As a result, the Cost Benefit Analysis models the full cost of implementing and administering a visitor levy bespoke to Orkney using the Improvement Service platform, without the assumption that the costs could be shared by other island local authorities should this agreement arise.

On the other hand, the engagement phase revealed concerns that implementing a visitor levy in Orkney, but not other island authorities, may push visitors to these areas instead of Orkney. This would result in a decrease in visitors, and revenue from the visitor levy as a result. The sensitivity analysis accounts for potential decreases in visitor numbers, and as the decision of the other local authorities will be made concurrently, it is not possible to quantify the number of visitors who may travel elsewhere, should they not implement the levy.

## Inclusion of Mainland and exclusion of isles

One scenario arising out of the engagement was to exempt Orkney's outer islands from the visitor levy to encourage visitors to explore areas outside of the Mainland or major towns in each local authority. For example, this could mean that visitors would pay a visitor levy on visits to Kirkwall, while visitors to Westray are exempt.

The potential scenarios for which islands, or areas, should be included and excluded from the visitor levy would be taken when developing the visitor levy. To model the impact of these exclusions in the CBA, a proposal on which areas would be included would be needed.

## Cap on the number of nights

The legislation gives local authorities the power to create a limit on the number of nights a visitor levy would apply. For example, if the visitor levy was capped at 5 nights, a person staying in the same accommodation for 2 consecutive weeks would only pay the levy for their first 5 nights.

Should a visitor levy be progressed, further economic analysis should be conducted if the cap on the number of nights is proposed. Just over 50% of stakeholders supported a cap, with the majority supporting a 7 night cap, based on their experience of length of stay and a gut feeling of what feels right rather than a quantifiable and robust assessment.

# Appendix 3: Key informant stakeholders interviewed

The following list consists of the stakeholders who participated in one-to-one interviews.

- Revenue Scotland
- Shetland Tourism Group
- Edinburgh City Council
- Argyll and Bute Council
- Improvement Service
- OIC Head of Finance and Service Manager Accounting (Enterprise and Sustainable Regeneration)
- OIC Licensing Officer
- HIAL (Highlands and Islands Airports Limited)
- OIC Harbours and cruise lead
- Destination Orkney
- Chief Executive Outer Hebrides Tourism
- Chair of Outer Hebrides Tourism
- HIAL, Chief Operating Officer





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