

Written evidence submitted by FSB Wales (TOU0009)

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. It campaigns for a better social, political, and economic environment in which to work and do business.

With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

Tourism and Hospitality are a key industry for many parts of Wales, bringing many jobs, and bringing in value to local communities, as well as being a key part of building the Welsh and local brands. This sector is overwhelmingly a local small business sector.

There is rightly a view that tourism needs to be built for sustainability over the longer term, and a need to look at how the value of tourism can be better shared among communities and businesses throughout the tourist areas and beyond, and we need to build these into the strategy for the longer term.

FSB Wales will be undertaking new work to outline its vision over the coming months and will look forward to working with local authorities and all levels of government on building a tourism vision and strategy that works best for Wales' SMEs. We have recently conducted focus group on tourism among members and will share some insight gleaned— however, these should be treated as indicative and tentative as we are early in the research process, and so there is more work to be done to get a fuller picture, with our report due in the summer.

1. How attractive is Wales as a holiday destination for international tourists?

Anecdotally, we know that visitors in Wales have tended to give positive feedback to our members in the industry.

The Wales Visitors Survey 2019 noted that

'Overseas visitors' main prompted reason for visiting Wales was to relax and escape from the stresses of life... Enjoying the countryside and visiting friends and family were also important prompted factors for visiting Wales. Sense of place is particularly important to overseas visitors – over eight in ten were looking for an experience that is distinct to Wales and that they could not have anywhere else. Encouragingly, as in previous years, the majority thought some aspect of their visit included features that were distinctively Welsh (in particular, Wales' heritage sites and visitor attractions). They are also more likely than UK visitors to be interested in the Welsh language'¹

¹ <https://gov.wales/sites/default/files/statistics-and-research/2021-03/wales-visitor-survey-2019-overseas-visitors.pdf>

As the 2019 Visitors Survey states, Europeans make up half of overseas visitors to Wales.

The Welsh Government sponsored Wales' inclusion in the 2020 Anholt-Ipsos Nation brands index for the first time which provides wider data on perceptions of Wales as an attractive destination.

Wales ranked in the middle of the index for Tourism, in 25th place, with a score of 64.4. Wales' lowest overall ranking attribute was under this dimension, for its "vibrant cities" (31st).² This suggests work to be done, and links together external perceptions and the need to bounce back in terms of cultural and arts industry, sports and so on post Covid (to stimulate 'vibrancy').

Wales' reputation in 2020 was strongest in the UK (rank: 7th, score: 65.0), followed by Australia and France; and weakest in India (rank: 38th, score: 68.7), followed by China then Turkey.

A total of 53% respondents were familiar with Wales. Wales ranked in the bottom ten of the 50 countries included on the 2020 NBI in terms of overall familiarity, ranking in 45th position. This suggests the need to work on brand recognition.

2. Why is the number of international visitors to Wales comparatively low as a share of the UK total?

It is likely to be a complex a mix of issues, including recognition as noted above.

However, one aspect is geographical access to Wales – or perceived access - through airports and budget airlines, and infrastructure links to these airports as key links to international travel market. Having one international airport based in Wales will have an effect here.

This link is well established, with cities served by budget airlines saw an uplift of 40% lift in bookings on Expedia in 2018 were Vilnius, Lithuania; Seville Spain; and Inverness, Scotland.

As such devolving and lowering APD in Wales could serve to provide a key lever to attract airlines to Cardiff International Airport and South Wales.

More could be done to ensure that links to Liverpool and Manchester, Birmingham and Bristol Airport to Wales are made clear and the offer to tourists alongside easy access, is marketed. There is an aspect of destination management here also, in looking to spread the value of tourism around and away from city hotspots and dealing with dangers of overtourism in those settings.

Better travel infrastructure would benefit international visitors, domestic visitors, and local residents alike.

3. Does Wales have a sufficiently strong "brand" internationally and what more could be done to promote Wales as a holiday destination abroad?

The insights from our focus group of tourist-facing businesses are that their view was that the brand did not work well internationally, and that there was a lack of distinction between Wales and England, and also Wales and Britain. It was also felt that where there were images of Wales these

² <https://gov.wales/anholt-ipsos-nation-brands-index-2020-report-wales-summary-html#:~:text=Wales%20ranked%20in%20the%20middle,with%20a%20score%20of%2064.4.>

were often of images that did not serve all the strengths of Wales and were unimaginative in projecting Wales' appeal, and especially in storytelling (in comparison with Ireland for example).

Most visitors the focus group served were from England and they felt that the branding to that audience was more effective.

Generally, there is little feeling of ownership over the Welsh brand by SMEs, and steps could be taken to engage better on this. When we looked at this issue in 2018, we found that 32% of businesses surveyed made use of the Visit Wales brand, and it not currently seen as useful to members. One concern raised by smaller businesses is the ability to properly utilise the brand – a suggestion being that if there was more flexibility in this, such businesses would become more effective 'brand ambassadors' for Wales.

It was noted by focus group members that building a strong 'ecotourism' brand could be a good way to build a better brand and to provide a story and differentiation and a consistent approach that allows space for local communities and businesses to serve that brand. It was also noted that 'greenwashing' would not work, and that it is important to walk the walk to fulfil an ecotourism offer, and that infrastructure and public transport would be vital in this respect. Nevertheless, as a means by which these may sit alongside a wider holistic decarbonisation strategy, an ecotourism offer and branding is something to be explored and developed with full engagement with SMEs in Wales, so that they have ownership over it, and fit their work to sit alongside a wider story.

4. How has the COVID-19 pandemic impacted the tourism industry in Wales?

This is a sector that has been hit particularly hard by Covid – with many usually busy seasons being like winter seasons – and a sector that still needs support to recover from the long-term effects, the lack of trade, costs of adaptation and accrument of debt during the pandemic.

While the trend toward 'staycations' has the potential to aid recovery and growth, it is also important that Wales and its SMEs are in a position to take advantage of any such boom, but also in a place to react to wider market changes and costs due to Brexit, and the general challenge of less disposable income being available to spend on breaks. As such, there should not be added costs to the sector in the immediate future and local authorities should signal their aims to support the industry in their economic strategy during a difficult time.

Furthermore, if we are not only to attract more domestic visitors as has been evidenced during the Pandemic (outside lockdowns and other restrictions) we need to assess the long-term appropriateness of local infrastructure such as transport infrastructure to service this demand.

5. What will be the impact of a return to the 20% rate of VAT from April 2022 for the tourism industry in Wales?

The return to the 20% VAT rate comes at a particularly difficult time for businesses who are also having to cope with the return of business rates (albeit at 50%) and the rise in National Insurance. This comes at a time of rising energy costs, disruptions in supply chains, skills shortages, and uncertainty in international and domestic markets following seismic changes in the last few years. This on top of several difficult seasons, and with debts from Covid also now being called in.

As such, a rise in VAT occurs at a time of severe rising costs across the industry, at the same time as a likely fall in household disposable income making absorbing those costs in the market or passing to consumers problematic.

It should also be noted that other countries tend to have lower VAT on tourism than the UK (and this should also be considered in the discussions of tourism levy when thinking about the overall tax burden on SMEs). It should be noted that the tourism industry in Wales is overwhelmingly driven by SMEs, especially micro businesses of 1-9 employees.

FSB's view is that governments should look to lower the costs of doing business at this time where possible, and so retaining the lower rate of VAT would be sensible. Welsh Government should look at whether there is additional targeted support or relief they could offer.

6. What would be the potential implications for Wales' attractiveness to international visitors of a tourism levy?

It is difficult to ascertain whether international visitors would see a levy as a disincentive, or whether they would see it as a hidden cost when it is collected. However, it could impact on the industry's market, and also upon the businesses themselves who provide services for visitors.

Tourism is overwhelmingly an SME driven industry, and small businesses and the tourism sector have been particularly hit during the Covid pandemic. As such, a new tax should not be in consideration for the immediate future.

Whatever the merits and demerits of any such tax, following successive 'winter seasons' since March 2020, this is not the time to raise the prospect of more costs and tax on a key Welsh industry that is particularly vulnerable at present. Given the need to have a 'Welcome Back to Wales' message in order to secure a new tourist market for the future, it is also questionable that a focus on tourism tax is good for a key sector of the Welsh economy this year, and local authorities and councillors should state clearly that this is not on the horizon for the immediate future and support the industry to get back on its feet, as well as ensuring that Wales is clearly messaging that we welcome and value our visitors.

Proponents of any prospective tourism tax should guarantee that it will not apply for SMEs until we are able to see the shape of recovery, as well as the shape of the market following two years of Covid and following Brexit. The visitor market remains uncertain, despite much discussion around 'staycations'. It is also important that Wales' tourist industry can take advantage of any change in tourist market and so possible disincentives, or competitive disadvantages should be put to one side at least until a strong tourist market in Wales is secured.

Any new tax must fit a wider tourism and economic development strategy. If a Local Authority looks to introduce such a new tax, they should consider applying the five principles of good taxation (as set out in FSB's 'A Duty to Reform' report³) and see to what extent it works.

³ <https://www.fsb.org.uk/static/fa586fa9-2753-41ea-a37470b755ae8100/FSB-Report-A-Duty-to-Reform.pdf>, page 6

- **Fairness** – does it treat businesses on an equal basis, and is it proportionate? Does the tax treat overnight visits (tax on accommodation) as more suitable to tax than day visitors (tax on attractions), who would use the same facilities?
- **Adequacy** – does the tax actually raise enough to be worthwhile? Most international examples cited have been from dense city and urban areas; the case needs to be made for its adequacy in the Welsh context.
- **Simplicity** – will it be clear and simple, and on what basis will the amount be decided?
- **Transparency** – Is it merely a revenue raising instrument for local authorities to plug gaps in funding, or does it fit in a wider tourism development strategy? Is it hypothecated to services for tourism development, or skills and capacity building for tourist businesses in building it as a year around industry with clear progression for its workforce and industry? Will SMEs be able to track where the spend is going?
- **Administrative ease** – will it be burdensome to collect or to pay?
- **Neutrality** – what is the aim of the tax and how does it fit within a wider strategy? Does it view tourism as a social good (as for example when farms are encouraged to diversify)? Or is it punitive and on what basis is this justified?

There are also questions on how it fits with wider economic development in a key industry – does it create disincentives that are economically damaging? Many businesses provide funds for services (e.g., community transport) for their area already – would this provide a disincentive for such localised activity that responds to a local need, and would such social value activity be accounted for in reliefs from the levy?

There is a necessary discussion to be had about sustainable tourism, destination management, and in ensuring the value of tourism benefits the community and SMEs. Tax and costs may play a part in that, but it cannot be only about revenue raising and should not serve as a distraction from a wider tourism development strategy being in place. SMEs need to play a full part in that discussion.

7. What steps are needed post-pandemic for the tourism sector in Wales to recover and grow its international appeal?

There needs to be an understanding that this sector is still vulnerable from the pandemic – as one respondent put it, when attractions were closed so often in 2020, it takes more than a single good season to make up for it, especially with debt, spiralling costs and increases in insurance costs too.

Respondents generally noted that there is a real need to message ‘Welcome to Wales’ and given that Wales has had different rules and more restrictions in 2020-21, that this message needs to be redoubled as against England. SMEs had found that visitors had decided the prospect of cancelling their holidays in Wales was a greater risk and so decided against it during 2021 as against England. While the focus group did not think this was long-term, it did require action to ensure the message of being open and welcoming gets out to visitors (domestic and international), and Welsh Government moving to sustainable strategy for Covid is important in this regard also.

There are concerns that an effect of a tourist tax, and general discussion of tourism as ‘a problem’ rather than a key industry would be to go against a ‘Welcome to Wales’ message. It is clear that there is a need to see tourism as an economic asset for our economy and any strategic approach to the economy should look at how to develop the sector in a similar vein as has been seen in places like Scotland.

It is also difficult to extricate the impact on international mobility through Covid-19, and whether Brexit has had an impact on international tourism in terms of European visitors in particular. It is important to project that the UK and Wales are welcoming to our neighbours as visitors, and to look at mitigating any barriers to travel to UK as potentially being a competitive disadvantage in the European tourist market.

As the 2019 Wales Visitors Survey states, Europeans are the most frequent international visitors to Wales, and while this number rose from 2016-19, ‘this needs to be monitored closely post-Brexit especially as the feeling of welcome in Wales is the highest scoring dimension for visitor satisfaction.’

8. How can the UK and Welsh Governments and bodies like VisitBritain and Visit Wales better work together to make Wales a more attractive destination for international visitors?

As noted above, our focus group found that the Welsh brand was muddled with Britain and England to international visitors, and that this was a missed opportunity to differentiate and tell a story of Wales.

Rather than a muddle this double branding should serve Wales well as it gives different hooks with which branding can attract visitors to Wales.

Our polling (of our general SMEs, not tourism, but branding across sectors is mutually reinforcing in benefits) has shown that a similar % of SMEs think that branding their products as ‘British’ (39%) or ‘Welsh’ (42%) matters. This indicates that both brands are important to exploit, that they can mutually reinforce each other, while allowing for segmented differentiation also.

As such, it is important to take advantage of both Wales and UK brands, and ‘Wales within Britain’ to attract and inform visitors of Wales and its stories. Furthermore, there needs to be a ‘co-ownership’ of the brand with SMEs to an extent where they become ‘net promoters’ of the Wales brand and can use it in their own marketing etc. This would engender pride, ownership and extend the commercial reach of the Wales brand far more than could be done by Welsh Government’s activity alone.

This view of international branding is supported by the Anholt-Ipsos index noted in Q1, with only 53% respondents familiar with Wales. Wales ranked in the bottom ten of the 50 countries included on the 2020 NBI in terms of overall familiarity, ranking in 45th position. This suggests the need to work on branding and recognition internationally.

One issue with Visit Wales is that its budget as part of the tourism and/or economy budget is unclear in the Welsh Government budget. It’s UK counterparts in other nations are arm’s length bodies with regular reports. In 2017 we noted that ‘the budget for Visit Wales is still smaller than competitors across the UK, despite a recent budget rise of around £5m in the 2017/18 Welsh Government budget bringing it to a total of £15m. By comparison, Visit Scotland has around £45m in grant aid from the

Scottish Government whilst Failte Ireland in the Republic of Ireland forms part of a tourism budget of around €121m.'

While £60m has been earmarked for spend on tourism through Visit Wales over the next 5 years it is unclear how this budget is used and how much is allocated for Visit Wales itself. However, if we take that number as a proxy for the budget for the arm's length bodies it does not appear to be as high as elsewhere in the UK. Visit Scotland, for example, has an annual budget of £45m.

9. Has the UK Government's tourism Sector Deal achieved its aims of making Wales more accessible and improving conditions for domestic and international visitors?

No view

10. What infrastructure and transport reforms are needed to make it easier for international tourists to reach Welsh destinations and attractions?

Transport infrastructure – roads and rental, more regular trains, with more carriages, easily accessible buses from airports or with links from shuttles – are vital to be able to promote easy accessibility from abroad.

As well as physical accessibility, marketing the easy access is vital too. Liverpool as 'gateway to North Wales/Snowdonia etc' is a way to ensure that visitors planning their trip look to this as an option.

Public transport and EV infrastructure is also vital in developing a credible ecotourism strategy and brand, as well as fulfilling the wider environmental aims of Welsh and UK Government.

Cruise and boat travel has been increasing globally over the last decades (albeit with some worries on number of passengers at one time) – any freeport strategy and development of ports in Wales for goods and services in the new international market conditions should explore these possibilities also.

11. How can Wales increase its share of international tourism while meeting the UK and Welsh Governments' respective decarbonisation commitments?

As noted above, sit alongside a wider holistic decarbonisation strategy, an ecotourism offer, and branding is something to be explored and developed with full engagement with SMEs in Wales, so that they have ownership over it, and fit their work to sit alongside a wider story. This would also spur developments that lower carbon in the round.

Looking at other means of access (e.g., by ships) should also be explored, as discussed above.

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