

## Agenda – Finance Committee

---

Meeting Venue: Hybrid – Committee  
room 3, Senedd and video conference  
via Zoom

For further information contact:

Owain Roberts

Committee Clerk

Meeting date: 23 January 2025

0300 200 6388

Meeting time: 09.30

[SeneddFinance@senedd.wales](mailto:SeneddFinance@senedd.wales)

---

### Registration

(09.00 – 09.15)

### Private pre-meeting

(09.15 – 09.30)

#### 1 Introductions, apologies, substitutions and declarations of interest

(09.30)

#### 2 Paper(s) to note

(09.30)

##### 2.1 PTN 1 – Welsh Language and Education (Wales) Bill: Welsh Government response to the Finance Committee's report recommendations – 13 January 2025

(Pages 1 – 5)

##### 2.2 PTN 2 – Letter from the Women's Equality Network (WEN) Wales to the Cabinet Secretary for Social Justice, Trefnydd and Chief Whip: Visitor Accommodation (Register and Levy) Etc. (Wales) Bill – 10 January 2025

(Pages 6 – 7)

##### 2.3 PTN 3 – Letter from the Cabinet Secretary for Finance and Welsh Language: Implications of Budgets not being approved by the Senedd – 16 January 2025

(Pages 8 – 9)



- 2.4 PTN 4 – Welsh Government Draft Budget 2025–26: Additional information received from the WLGA in relation to the Shared Prosperity Fund – 16 January 2025**  
(Page 10)
- 2.5 PTN 5 – Letter from the Cabinet Secretary for Economy, Energy and Planning: Inter-Ministerial Group for Business and Industry – 17 January 2025**  
(Page 11)
- 3 Welsh Government Draft Budget 2025–26: Evidence session 8**  
(09.30 – 11.15) (Pages 12 – 50)  
Mark Drakeford MS, Cabinet Secretary for Finance and Welsh Language  
Andrew Jeffreys, Director Treasury, Welsh Government  
Emma Watkins, Deputy Director, Budget and Government Business, Welsh Government
- Supporting documents:**  
[Welsh Government Draft Budget 2025 – 2026](#)  
Senedd Research Brief
- 4 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from items 5, 6 and 9; and the start of the meeting on 30 January 2025**
- 5 Welsh Government Draft Budget 2025–26: Consideration of evidence**  
(11.15 – 11.30)
- 6 Second Supplementary Budget 2024–25 requests from Directly Funded Bodies**  
(11.30 – 12.00) (Pages 51 – 74)  
**Supporting documents:**

FIN(6)–03–25 P1 – Cover paper: Second Supplementary Budget 2024–25 requests from Directly Funded Bodies

FIN(6)–03–25 P2 – Public Services Ombudsman for Wales

FIN(6)–03–25 P3 – Senedd Commission

## **Lunch**

(12.00 – 13.00)

## **Public**

### **7 Visitor Accommodation (Register and Levy) Etc. (Wales) Bill:**

#### **Evidence session 2**

(13.00 – 14.00)

(Pages 75 – 105)

Dr Rhys Ap Gwilym, Senior Lecturer in Economics, Bangor Business School, Bangor University

Dr Linda Osti, Senior Lecturer in Tourism Management, Bangor Business School, Bangor University

#### **Supporting documents:**

FIN(6)–03–25 P4 – Bangor Business School, Bangor University

Senedd Research Brief

## **Break**

(14.00 – 14.10)

### **8 Visitor Accommodation (Register and Levy) Etc. (Wales) Bill:**

#### **Evidence session 3**

(14.10 – 15.10)

(Pages 106 – 149)

Professor Calvin Jones, Professor of Economics, Cardiff Business School, Cardiff University

#### **Supporting documents:**

FIN(6)–03–25 P5 – Professor Calvin Jones

**Private**

**9 Visitor Accommodation (Register and Levy) Etc. (Wales) Bill:**

**Consideration of evidence**

(15.10 – 15.30)

Mark Drakeford AS/MS  
Ysgrifennydd y Cabinet dros Gyllid a'r Gymraeg  
Cabinet Secretary for Finance and Welsh Language

Agenda Item 2.1



Llywodraeth Cymru  
Welsh Government

Our ref: MA/MDFWL/0003/25

Peredur Owen Griffiths MS  
Chair  
Finance Committee

13 January 2025

Dear Peredur

### **Welsh Language and Education (Wales) Bill**

I would like to thank the Finance Committee for their scrutiny of the Welsh and Education (Wales) Bill at Stage 1 and for the report published on 13 December 2024.

I have set out the Government's response to the Committee's recommendations and conclusions in the Annex to this letter.

I look forward to continuing to work with Committee Members on the detail of the legislation.

I am sending a copy of this letter to the Chairs of the Children, Young People and Education Committee and the Legislation, Justice and Constitution Committee.

Yours sincerely,

**Mark Drakeford AS/MS**  
Ysgrifennydd y Cabinet dros Gyllid a'r Gymraeg  
Cabinet Secretary for Finance and Welsh Language

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:  
0300 0604400

Bae Caerdydd • Cardiff Bay  
Caerdydd • Cardiff  
CF99 1SN

[Correspondence.Mark.Drakeford@gov.wales](mailto:Correspondence.Mark.Drakeford@gov.wales)  
[Gohebiaeth.Mark.Drakeford@llyw.cymru](mailto:Gohebiaeth.Mark.Drakeford@llyw.cymru)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

**ANNEX**

**Welsh Language and Education (Wales) Bill**

**Government Response to the recommendations from the Finance Committee Report**

| Recommendation   | Government Response | Change to the Bill | Change to supplementary documents | Comments  |
|--|---------------------|--------------------|-----------------------------------|---|
| <b>Recommendations</b>   |                     |                    |                                   |   |
| <p><b>Recommendation 1.</b><br/>The Committee recommends that the Cabinet Secretary confirms when data about Welsh language teaching in the context of school workforce development will become available.</p>   | Accept              | No                 | No                                | Information on members of the school workforce is collected in accordance with the Education (Supply of Information about the School Workforce) (Wales) Regulations 2017. The data is published in the School Workforce Annual Census (SWAC). Any assessment of the number of education practitioners needed in each local authority in order to meet any target set will be included in the first National Framework.  |
| <p><b>Recommendation 2.</b><br/>The Committee recommends that the Welsh Government includes a detailed cost-benefit analysis for all options under consideration within the Regulatory Impact Assessment for this Bill and all future bills introduced by the Welsh Government in the Senedd, in line with its own guidance.</p> | Reject              | No                 | No                                | <p>The three scenarios set out in the Regulatory Impact Assessment (RIA) were not developed to describe different policy options. Rather, they provide a way of describing the Welsh Government’s assessment of the likely investment required, based on an understanding of the current situation of Welsh language education in relation to the goals articulated in the Bill.</p> <p>The RIA focuses on providing a full estimate of costs for options taken forward in the Bill, rather than also fully costing the ‘do nothing option’ and the ‘alternative option’ in Chapter 7 which were ruled out for other reasons. Chapter 7 does provide an indication of our</p> |

| Recommendation   | Government Response | Change to the Bill | Change to supplementary documents | Comments  |
|--|---------------------|--------------------|-----------------------------------|---|
|  |                     |                    |                                   | assessment of the relative extent of costs (high, medium, low) for each option.   |
| <p><b>Recommendation 3.</b><br/>The Committee recommends that the Welsh Government provides a full and robust Regulatory Impact Assessment for any regulations made as a result of this Bill and that sufficient time is provided to allow the Senedd to consider any related financial implications that will arise.</p>                              | Accept              | No                 | No                                | RIAs will be provided for each set of regulations made under the Bill. The majority of regulations to be made under this Bill will be subject to the Draft Affirmative procedure and the RIA will be laid before the Senedd ahead of the Plenary debate on the regulations, therefore allowing Senedd scrutiny. |
| <p><b>Recommendation 4.</b><br/>The Committee recommends that the Welsh Government provides a full breakdown of how costs relating to the National Institute for Learning Welsh was estimated and how this compares with the costs relating to the National Centre for Learning Welsh, and updates the Regulatory Impact Assessment after Stage 2.</p> | Accept              | No                 | Yes                               | Any additional information on National Institute for Learning Welsh costs will be added to the RIA after Stage 2.   |
| <p><b>Recommendation 5.</b><br/>We recommend that the Welsh Government provides cost estimates relating to increased demand for language immersion courses and that these changes are made to the</p>  | Accept              | No.                | Yes                               | Since publishing the RIA, new local authority level data on late immersion has become available. The RIA will be updated with an estimate of costs relating to increased demand for late immersion..  |

| Recommendation   | Government Response | Change to the Bill | Change to supplementary documents | Comments  |
|--|---------------------|--------------------|-----------------------------------|---|
| Regulatory Impact Assessment after Stage 2.  |                     |                    |                                   |   |
| <b>Recommendation 6.</b><br>The Committee recommends that any post-implementation review undertaken by the Welsh Government assesses the overall costs and benefits of the Bill and whether this meets the expectations set out in the Regulatory Impact Assessment. | Accept              | No                 | No                                | As part of post-implementation review, the intention is to assess the overall costs and benefits of the Bill compared to expectations set out in the RIA. |
| <b>Conclusions</b>   |                     |                    |                                   |   |
| <del>Conclusion 1.</del><br>The Committee is broadly content with the financial implications of the Bill as set out in the Regulatory Impact Assessment, subject to the comments and recommendations in this report.   | Noted               | No                 | No                                | We have responded to the comments and recommendations individually.   |
| <b>Conclusion 2.</b><br>The Committee supports the provisions within the Bill to allow for collaborative working across schools in developing their Welsh language education delivery plans and notes the cost savings which may arise as a result.                  | Noted               | No                 | Yes                               | This point will be made explicit in the RIA narrative.  |



10 January 2025

Dear Cabinet Secretary,

## **Visitor Accommodation (Register and Levy) Etc. (Wales) Bill**

We wish to draw your attention to the provisions of the above draft Bill.

Its intention is to ask tourists to pay a small levy in order to contribute to the costs of maintaining the host community. The draft Bill already goes further than that, capturing accommodation usually made available, on a short-term basis, for business, leisure and education trips.

The purposes of the overnight stay are not defined but they appear to capture any kind of overnight stay unless specifically exempted; the draft Bill contains a list in section 9. Women and children escaping domestic violence or abuse are not included in that list. The draft Bill does envisage that women and children using such accommodation in extremis will come within the ambit of the law, albeit being able to claim an amount equivalent to the cost of the levy within 30 days of their last night's stay.

However, there are no provisions on how a refund might be reclaimed; it is left to powers for Welsh Government to introduce such provisions at some future date.

We understand the reason given for not including women and children fleeing violence in the list of exemptions in section 9 is that it would be insensitive to ask for that information to be disclosed at time of booking.

Our concern is that a woman in these circumstances is unlikely to have access to much money at short notice. It is not a welcome position that she will have to eat into what she has to pay the levy, for any children as well as herself, and then address herself to reclaiming the tax within a month of leaving. This is unrealistic and the chances of it happening at all will be low in most cases. The draft legislation, as is, displays insensitivity to the realities of a flight from abuse.

Women in this position cannot have been within the initial policy intention, which was aimed at leisure or business tourists.

In response to a question on this point put the Cabinet Secretary for Finance on 26 November 2024, he replied, “There are safeguards in the Bill so people who are placed in accommodation because of domestic abuse will not pay the levy”.

We welcome women’s refuges falling outside the definition of “visitor accommodation” and, so, the scope of the draft Bill. However, women seeking their own emergency accommodation and needing to use commercially available accommodation for a short period will have to pay the levy. As far as we can see, there is no dispensation for women “placed” in such accommodation either.

The only “safeguard” is a window of opportunity to claim back the amount equivalent to the levy, without further detail.

We would be grateful if you would speak to the Cabinet Secretary for Finance and ask him to reconsider the current lack of protection for women and girls in an emergency situation.

We are certain that a feminist government has no intention of treating women in these circumstances with anything but compassion. Unfortunately, the draft Bill does not deliver that and we urge Welsh Government to amend it appropriately.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Victoria Vasey'.

Victoria Vasey  
Director, WEN Wales

cc Finance Committee



Llywodraeth Cymru  
Welsh Government

Peredur Owen Griffiths MS  
Chair  
Finance Committee  
Senedd Cymru

16 January 2025

Annwyl Peredur,

Given recent interest in the implications of Budgets not being approved by the Senedd, I am writing to set out the arrangements which would follow.

The Senedd's agreement of the annual Budget Motion authorises the Welsh Government and bodies directly funded by the Welsh Consolidated Fund (Senedd Commission, Public Services Ombudsman Wales, and Audit Wales) to spend resources as specified in the Motion during the financial year associated with that Budget. It also sets the limits of income that may be retained by the Welsh Government and directly funded bodies, and the amount of cash each body can draw from the Welsh Consolidated Fund. Supplementary Budget Motions are laid in the Senedd to amend these limits within a financial year.

If a Budget Motion is not passed before 1 April of the upcoming financial year, Section 127 of the Government of Wales Act 2006 (GoWA) (*Appropriation without Budget Resolution*) automatically takes effect. This would give the Welsh Government and directly funded bodies authority to accrue (spend) resources, retain income, and draw cash from the Welsh Consolidated Fund of up to 75% of the limits approved in the previous financial year. If a Budget Motion still has not passed by the end of July, up to 95% of the previous financial year limits are deemed authorised.

The first Supplementary Budget Motion of 2024-25, approved by the Senedd on 22 October 2024, contains the current authorised limits. It is intended that these will be revised in the forthcoming second Supplementary Budget, which I will publish next month. If the second Supplementary Budget Motion is not approved by the Senedd, the limits from the first Supplementary Budget Motion continue to apply.

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:  
0300 0604400

Bae Caerdydd • Cardiff Bay  
Caerdydd • Cardiff  
CF99 1SN

[Correspondence.Mark.Drakeford@gov.wales](mailto:Correspondence.Mark.Drakeford@gov.wales)  
[Gohebiaeth.Mark.Drakeford@llyw.cymru](mailto:Gohebiaeth.Mark.Drakeford@llyw.cymru)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Local authorities and other delivery partners set budgets and council tax amounts based on figures expected from the Welsh Government as set out in the Draft Budget and provisional local government settlement.

Yours sincerely,

A handwritten signature in black ink that reads "Mark Drakeford". The signature is written in a cursive style and is contained within a thin black rectangular border.

**Mark Drakeford AS/MS**

Ysgrifennydd y Cabinet dros Gyllid a'r Gymraeg  
Cabinet Secretary for Finance and Welsh Language

## **Finance Committee evidence session with the Welsh Local Government Association (WLGA) on the Welsh Government Draft Budget 2025-26 – 15 January 2025**

Following the attendance of WLGA representatives at the Finance Committee's evidence session on the Welsh Government Draft Budget 2025-26, the WLGA provided the response below, in relation to a question on the Shared Prosperity Fund, that wasn't reached during the evidence session.

**Question:** In your consultation response, you talk about uncertainty around a successor to the Shared Prosperity Fund (SPF). How has that Fund supported economic development and does this Draft Budget complement economic development activities local authorities are involved in.

**Response:** Please see below the WLGA's response to the question on the SPF which has been cleared with our Leader:

- The Shared Prosperity Fund (SPF) introduced by the UKG has proven to be a flexible fund, enabling local authorities to support projects that are tailored to meet local need.
- In that sense it has been a welcome change from previous EU regimes where projects had to meet strict criteria, resulting in projects having to be 'bent' to achieve eligibility.
- In all four regions of Wales a designated lead authority has worked successfully with the constituent councils in their region to achieve a combination of regional co-ordination and local delivery.
- WLGA has consistently called for tripartite discussions between UKG, WG and local authorities to reach agreement on what activity is best conducted nationally, regionally and locally. Such discussions would also enable lessons learned from the delivery of SPF to inform the development of its successor.
- That will be the best way to ensure that the funding allocated for economic development purposes in the WG budget complements the activities that LAs are involved in.
- Councils play a vital role in economic development, providing co-ordination across a range of functions that are of benefit to local businesses. It will be crucial that they remain central to plans for economic development, working closely with WG and UKG

Rebecca Evans AS/MS  
Cabinet Secretary for Economy, Energy and Planning  
Ysgrifennydd y Cabinet dros yr Economi, Ynni a Chynllunio



Llywodraeth Cymru  
Welsh Government

Our ref: DC-RE-10655-24

Mike Hedges MS  
Chair  
Legislation, Justice and Constitution Committee  
Senedd Cymru

17 January 2025

Dear Mike,

I am writing in accordance with the inter-institutional relations agreement to notify you of the Inter-Ministerial Group for Business and Industry (IMG) and the meeting which will take place on 21 January 2025.

The IMG will be chaired by UK Government's Minister of State for Industry, Sarah Jones MP. I will represent the Welsh Government at the meeting. This will be the first meeting of the IMG since January 2023 and since the general election held in July and will be a hybrid meeting. I anticipate the discussion will focus on the Industrial Strategy and will provide an opportunity for HMT and devolved nations to provide an economic update.

I have copied this letter to the Chairs of the Finance Committee and the Economy, Trade and Rural Affairs Committee.

I will provide an update after the meeting.

Yours sincerely

**Rebecca Evans AS/MS**  
Cabinet Secretary for Economy, Energy and Planning  
Ysgrifennydd y Cabinet dros yr Economi, Ynni a Chynllunio

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:  
0300 0604400

Bae Caerdydd • Cardiff Bay  
Caerdydd • Cardiff  
CF99 1SN

[Correspondence.Rebecca.Evans@gov.wales](mailto:Correspondence.Rebecca.Evans@gov.wales)  
[Gohebiaeth.Rebecca.Evans@llyw.cymru](mailto:Gohebiaeth.Rebecca.Evans@llyw.cymru)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

# Agenda Item 3

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted

Document is Restricted

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted

**Cyflwynwyd yr ymateb i ymgynghoriad y [Pwyllgor Cyllid](#) ar [Bil Llety Ymwelwyr \(Cofrestr ac Ardoll\) Etc. \(Cymru\)](#)**

**This response was submitted to the [Finance Committee](#) consultation on the [Visitor Accommodation \(Register and Levy\) Etc. \(Wales\) Bill](#).**

**VAB145: Ymateb gan Dr Rhys ap Gwilym and Dr Linda Osti -Ysgol Busnes Bangor, Prifysgol Bangor | Response from: Dr Rhys ap Gwilym and Dr Linda Osti -Bangor Business school, Bangor University**

---



## Bangor Business School response to Senedd Finance Committee's Consultation on the Visitor Accommodation (Register and Levy) Etc. (Wales) Bill

Dr Rhys ap Gwilym, Dr Linda Osti  
10/01/2025

This paper lays out our response to the Senedd Finance Committee's consultation on the [Visitor Accommodation \(Register and Levy\) Etc. \(Wales\) Bill](#).

Our views are informed by our general academic expertise in the areas of tourism (Osti) and public finance (ap Gwilym). More specifically, we have carried out two research projects related to the possible introduction of a Tourism Tax in Wales.

The first of these projects assessed the tax systems facing the tourism industry in general, and the accommodation sector specifically, in Wales and other European countries with similar (potentially competitor) tourism sectors. The findings of this work are reported in [ap Gwilym et al \(2022\)](#).

The second of these projects examined the ways in which tourist tax revenues are used in various destinations around the world, with a particular emphasis on the environmental, social, and cultural impacts of that spending. The findings of this work are reported in [ap Gwilym and Osti \(2024\)](#).

For transparency, we note that both projects were funded by the Welsh Government.

### Objectives of the Bill

The consultation document sets out the objectives of the Bill as follows:

1. To ensure a more even share of costs to fund local services and infrastructure that benefit visitors between resident populations and visitors.
2. To provide local authorities with the ability to generate additional revenue that can be invested back into local services and infrastructure to support tourism.
3. To support the Welsh Government's ambitions for sustainable tourism.

On our count, if this Bill passes, Wales will become the twenty fourth country in Europe, and the fiftieth worldwide, where tourists are required to make some form of contribution to public coffers via some form of taxation targeted specifically at tourism activities.

Our research shows that there are two main grounds upon which visitor levies have been justified in the jurisdictions where they currently exist. The first is in order to pay for local, public goods specific to the tourism sector, such as tourism infrastructure or destination marketing. The second is in order to pay for the mitigation of external costs associated with tourism activity. The objectives listed above can be interpreted as being consistent with these two principles.

Furthermore, evidence suggests that tourists themselves accept these grounds as a legitimate basis



for taxation. There is a body of literature that establishes that tourists' willingness to pay tourism taxes increases when they believe that the revenues from the tax are used to improve the sustainability of the destination (see, for example, Rotaris 2020 and Duran-Roman et al 2021).

We conclude that there is a legitimate case to argue that the legislation of a tourist tax could be used to mitigate the negative effects of tourism and/or fund infrastructure used by tourists.

We note that the present proposals only apply to overnight stays. In many Welsh destinations, day visitors outnumber overnight visitors. Day visitors often contribute less to the local economy while still using resources, polluting the environment, and disrupting the lifestyles of local communities through increased traffic and congestion. We note that road-charging and taxes on parking places as well as entrance fees for day visitors (as recently introduced in Venice) provide ways of addressing the externalities caused by day visitors and funding the public infrastructure that they use.

### Concerns Expressed by Industry Bodies

We note that opposition to the principles of this legislation has been voiced by numerous groups, including industry bodies. Their arguments tend to be based around (1) concerns that a levy will deter potential visitors, and (2) on a view that the industry in Wales is already highly taxed relative to elsewhere in Europe.

Our view on the first of these arguments is nuanced. The theory is straightforward. An increase in the cost of holidays will reduce demand. However, if tax revenues are used to improve the quality of the offer to visitors, then this will increase demand.

There is a paucity of robust empirical evidence regarding which of these effects dominates in practice. In the seven destinations which we studied in [ap Gwilym and Osti \(2024\)](#), the number of visitor nights continued to increase after the implementation of the tax in every case. However, we cannot claim robust evidence of causality in either direction, and no such evidence exists in the academic or policy literature.

There is some evidence to suggest that tourists view a holiday holistically from a budgetary perspective ([Disegna and Osti 2016](#)). In other words, the total cost of the holiday is more salient than individual components of the basket of goods and services that constitute the holiday. Therefore, when the price of one item within the basket increases, tourists may respond by reducing expenditure on other items within the basket. Hence, we might expect tourists to economise on other spending when the cost of the overnight stay increases due to the imposition of a tourism tax.

Our views regarding the second argument are equally nuanced. Our report, [ap Gwilym et al \(2022\)](#), is focused on this very issue. In our research, we calculated exemplar tax wedges for various suppliers of tourist accommodation, to highlight the salient differences between the tax regimes in Wales and countries with similar tourism sectors.

In brief, we found that micro enterprises in Wales face a much lower tax wedge than similar firms in the comparator countries that we considered, but that larger businesses faced an above average tax wedge. These results are driven by:

1. Labour taxes in Wales are highly progressive at the lower end of the income distribution relative to the comparator countries. This is of particular note for the tourism sector, where a high proportion of jobs are low paid.



2. CIT rates in Wales are towards the lower end of the group of close comparators, but not by a substantial margin.
3. VAT: The high threshold for VAT registration in the UK is unique amongst the group of close comparators. This means that no VAT is payable on the value added of non-VAT registered micro enterprises in Wales's tourism sector. On the other hand, for those businesses which are registered, the VAT rate in Wales on accommodation is significantly higher than in the majority of the comparator economies.
4. Property taxes on businesses in Wales (in the form of non-domestic rates, NDR) are generally very high by international comparison. However, the Small Business Rates Relief scheme exempts many micro businesses from NDR and reduces the rates payable for many others. This is particularly relevant in the tourism sector in Wales where, as previously noted, there is a prevalence of micro enterprises.

### Register of Accommodation Providers

The draft Bill obliges all visitor accommodation providers (VAPs) in Wales to register as such. This is a common practice across numerous European jurisdictions, including parts of Spain, France, Italy, Germany, and the UK (e.g. Northern Ireland and Scotland).

We recognise the importance of keeping registration processes simple, so as to avoid onerous bureaucracy for VAPs. However, we believe that the registration process provides an important opportunity for low-cost data gathering that could be of significant value to policy makers, academics, and the industry itself. As such, we suggest that the following be noted in the register:

1. Number of rooms.
2. Bedspace capacity.
3. Seasonal availability (e.g. opening dates).
4. Year of opening.
5. List of services provided (e.g. bed-making / daily cleaning / meals / bar / leisure facilities / night porter etc.).

The draft Bill (Clause 4.2.f) requires that the register includes the type of accommodation that each VAP offers to provide. We suggest that the Bill should specify a typology of accommodation for this purpose<sup>1,2</sup>.

The draft Bill (Clause 6) specifies that Welsh Ministers may publish information derived from the register. We suggest that Welsh Ministers should be obliged to publish the register in full, subject to any redactions required by privacy laws, and in an accessible format.

---

<sup>1</sup> We note that the Bill as it stands is not completely transparent with respect to the terms it uses. For example, Clause 13.1.a. refers to "camping", but it is not clear to us whether this should be interpreted narrowly to include only tents, or more broadly to include campervans, touring caravans, or even static caravans.

<sup>2</sup> Any such typology should be consistent with [NACE](#) (Statistical Classification of Economic Activities in the European Community) categories I.55.1 to I.55.9 so as to enable comparison with statistics published by Eurostat. However, we would argue that NACE is not sufficiently disaggregated and that a subordinate level be added to differentiate, for example, between traditional bed and breakfast accommodation and hotels. The [2016 Visit England accommodation Stock Audit](#) provides a possible exemplar for such a disaggregation.



## Levy Rates

The draft Bill currently sets just two rates – a rate of 75p per person per night for camping<sup>3</sup> and accommodation in a dormitory, and £1.25 per person per night for all other accommodation. LAs may increase either or both of these rates, but cannot introduce other rates.

The headline rates appear to be sensible in their size. They are in line with the average rates that we found in France and the Netherlands ([ap Gwilym et al 2022](#)). We are unaware of any work which evaluates the scale of tourism externalities in Wales, or the cost of tourism related public infrastructure. As such, introduction of the tax at a modest rate in the first instance is appropriate in our view.

The draft Bill entails that it will not be possible for LAs to vary rates dependant upon any of the following:

1. Age of visitor.
2. Quality of accommodation (e.g. Visit Wales Star Grading).
3. Length of stay.
4. Day of week or season of year.
5. Geographic location within the LA.

Notably, and in contrast to the legislation recently adopted in Scotland, this will be a flat rate rather than a percentage of the accommodation bill. This is consistent with the Welsh Government's justification for the tax. There is no obvious basis for arguing that tourism externalities and use of infrastructure are correlated with the overall accommodation bill rather than being flat across individuals.

This intuition may also justify the invariance of rates to variables 1 and 2 above.

However, there are good reasons to believe that tourism externalities and use of infrastructure are correlated with variables 3, 4 and 5. Congestion and use of infrastructure are likely to be significantly higher on arrival and departure days, hence falling with length of stay. Externalities from visitors are likely larger on weekends and during peak seasons than during mid-week or low season.

Similarly, externalities are higher in tourism hotspots than elsewhere and can vary significantly across small geographic distances. As it stands, the Bill requires that the rate should be the same in Abersoch and the Bala, whilst it allows for variation between Bala and Corwen.

Our view is that the geographic scope of tourism tax rates should reflect the geographic extent of the incidence of externalities from tourism and the scale of tourism infrastructure. In a Welsh context, we believe that this coincides more closely with communities rather than with Principal Council (LA) areas.

## Collection of the Levy

It is extremely important, in our opinion, that the collection of the levy should place as light a burden as possible on VAPs. However, we also believe that the revenue collection process provides an excellent opportunity for data collection that could transform the abilities of policy makers and trade bodies to support the development of the tourism sector and to react effectively to shocks of the type experienced during the Covid-19 pandemic.

---

<sup>3</sup> See footnote 1. The definition of camping is not clear.



The quarterly or annual returns outlined in the bill appear to us to be antiquated, and fail to fully satisfy either the criterion of simplicity or the criterion of timely data.

We would suggest that the WRA be tasked with producing a digital app that facilitates the registration of overnight stays by accommodation providers and subsequent payment of the levy. This digital app should also support integration with the systems of intermediaries such as West Wales Holiday Cottages, Coast & Country Holidays Ltd, AirBnB and booking.com, thereby reducing the burden on accommodation providers. Such a platform could provide timely, granular data for policy makers and trade bodies, whilst allowing small providers to pay automatically through their intermediaries.

### Use of Proceeds of Levy by Principal Councils

Our report ([ap Gwilym and Osti 2024](#)) makes eight recommendations regarding the management and spending of tourist tax revenues, based on the research that we conducted. These are listed in full in Annex A of this document.

Our view is that the draft Bill explicitly implements Recommendations 1 and 5, which together entail that revenues should be hypothecated to fund tourism-specific public goods and the mitigation of the external costs of tourism.

The Bill leaves significant scope for Local Authorities (LAs) to determine the specific mechanisms by which revenues are allocated to meet these ends. Whilst we are generally supportive of the principle of subsidiarity, and agree that the Bill should not be too prescriptive with regards to revenue management, we believe that the Bill could provide clearer guidance for LAs in this respect.

A clear risk of the Bill as presently constituted is that LAs could use this new revenue stream to fund existing spending on tourism-specific public goods and/or the mitigation of the external costs of tourism, and divert existing revenue streams to other unrelated areas of expenditure.

The implementation of Recommendations 2, 3 and 4 of our report would guard against this risk, and ensure that the new revenues are used to strengthen the links between the tourism sector and local communities. This could be achieved by amending the Bill to require LAs to establish independent organisations with the responsibility for disbursing the revenues of the tax. These might be constituted so as to also act as Destination Management Organisations (DMOs), as is the case in South Tyrol, Italy. Alternatively, they might simply be grant making bodies, on the lines of the Icelandic Tourist Site Protection Fund.

### Summary

We are supportive of the general principle of taxing tourists and hypothecating those funds to support the sustainable development of the tourism industry and its host communities. In our view, there is strong evidence that similar taxes introduced in various destinations around the world have been used effectively to support the sustainable development of tourism in those destinations. We do note, however, that day visitors will not be subject to this tax despite being heavy users of tourism infrastructure in many destinations across Wales.

We are supportive of the principle of local implementation of such a tax. Our interpretation of local, however, coincides with the geographical extent of tourism infrastructure and of tourism externalities. This does not coincide with Local Authority boundaries in Wales.



We, therefore, suggest that rates should be set at the destination level, and that revenues are managed at that subsidiary level via DMOs (destination management organisations) or other appropriate bodies.

We believe that the introduction of this levy, and the associated registration of VAPs, is a unique opportunity to substantially improve data collection relating to tourism in Wales. We have outlined above a number of ways in which this opportunity might be seized so as to aid the sector and policy makers in improving the performance of the industry in Wales.

#### Annex A: Recommendations of the Review of Impacts of Visitor Levies in Global Destinations ([ap Gwilym and Osti 2024](#))

1. Visitor levy revenues should be hypothecated to invest in tourism specific public goods such as tourism infrastructure and destination marketing, and to finance the mitigation of external costs relating to tourism.
2. Further consideration should be given as to whether a “Grant-making” model, a “Designated Body” model, or a hybrid of the two should be employed in Wales. In either case, appropriate organisations should be established to manage or advise on the disbursement of visitor levy revenues.
3. Whichever organisations are assigned the responsibility for disbursing visitor revenues in Wales, their decision-making bodies should represent a wide range of interested parties. These should include representatives of government (Welsh Government, local government and/or town and community councils), representatives of tourism businesses and representatives of wider civil society such as trades unions, cultural groups and environmental groups.
4. Prominence should be given to local considerations when determining the allocation of visitor levy revenues. If a “Designated Body” model is followed, then these bodies should be constituted at a level of locality that reflects the incidence of externalities from tourism and the scale of tourism infrastructure. If a “Grant-making” model is followed, then criteria which require local governance should be implemented.
5. Visitor levy revenues should be available to fund both tourism-specific public goods and the mitigation of the external costs of tourism. This should include a wide range of spending categories, including tourism infrastructure, destination marketing and activities aimed at the social, cultural and environmental sustainability of host communities.
6. Funded projects and activities should have clear objectives in terms of either the sustainability of the tourism industry or the social, cultural or environmental sustainability of host communities. Post-implementation assessments should be carried out to determine whether objectives are met so as to inform future funding decisions.
7. The process of allocating the revenues of the visitor levy to spending priorities should be as transparent as possible, to facilitate accountability. Details of projects and activities funded should be published publicly, and meetings where funding decisions are made should be publicly accessible.
8. Ongoing monitoring and evaluation of the implementation of the Visitor Levy across Wales should be carried out. This should include comparison of governance procedures and outcomes across local authority areas, so as to enable best practice to evolve and develop without hindering adaptation to local contexts.

Document is Restricted

# Agenda Item 8

## **The Potential Economic & Greenhouse Gas Impacts of a Visitor Levy in Wales**

**Calvin Jones**

*Cardiff Business School & Welsh Government*

[REDACTED]

[REDACTED]

April 2024

# 1 Introduction & Overview

This document summarises the approach to estimating the economic and greenhouse gas emissions (GHG) impact of the proposed Visitor Levy in Wales. We estimate the potential economic impact of the Levy by drawing on academic and other literature that suggests a range of potential visitor responses, and then use a bespoke regional economic account for Wales – the *Input Output Tables for Wales (IOTW)* – to translate changed visitor volumes into an economic ‘shock’<sup>1</sup> on the regional economy. Input-Output Tables (IOTs) describe the sale and purchase relationships between producers and consumers within an economy. They are one of a number of methodologies used to estimate the whole-economy impact of changes in economic conditions. The IOT method of modelling the economy allows reporting of key economic outcomes, including on disposable income, Gross Value Added (GVA), and employment, both directly in the affected sectors (here transport, hospitality, recreation etc.) and indirectly, through regional supply chains and wage effects. The IOTs also allow an estimation of the GHG impacts of changes in the number of visitors to Wales, and these are also reported.

The IOTs for Wales have been compiled and published by Cardiff University’s Business School for 25 years, paralleling similar economic accounting approaches undertaken by the Office for National Statistics (ONS) for the UK, by Scottish Government, and latterly in Northern Ireland. The current iteration covers base-year 2019. This is the most recent year for which all relevant data were available when the tables were compiled (in early 2022), and hence the latest possible – and additionally avoids significant pandemic disruptions to both behaviours and data collection. The Tables lever all relevant publicly available (largely ONS and Welsh Government) information for their compilation<sup>2</sup>.

Input-Output Tables have been used extensively for economic impact, policy, and evaluative analysis by a wide range of public, third sector and private bodies in many countries. The IOTW meanwhile are the most holistic and detailed picture of the Welsh economy. The Welsh Government is currently undertaking an analysis of the feasibility of compiling and publishing ‘official’ Input Output Tables for Wales, with an experimental IOT for Wales expected to be published in mid-2024.

As part of the Cardiff University project, the IOTW have been iteratively extended to better reflect visitor expenditures (which do not affect a single sector, but many parts of the regional economy). The resulting Tourism Satellite Accounts (TSA) and Tourism Impact Model have also been important parts of policy analysis in Wales and inform this current work.

The next section reports on the structural adjustments made to the IOTW to better reflect the impact of the Levy and our methodology and assumptions. Note that **none of the analyses presented in this report include any frictional or administrative costs that any new Levy might engender**. These costs are currently unknown, in terms of both their scale and nature.

---

<sup>1</sup> An economic ‘shock’ refers to any change to fundamental economic variables or relationships that has a substantial effect on economic outcomes and measures of economic performance, such as employment or value-added.

<sup>2</sup> Fuller detail on the methodology and data for IOTW is available at <https://orca.cardiff.ac.uk/id/eprint/151984/> and from the current author.

## 2 Data & Methodology

### 2.1 Key Data

Our methodology (2.2 following) depends critically on several key data sources covering tourism in Wales, typically relating to 2019 as this is our base year of analysis.

1. **The Great Britain Tourism Survey 2019** – Published for Wales by Welsh Government<sup>3</sup>, this is the last edition of the longstanding domestic staying visitor survey<sup>4</sup>, covering destination type, accommodation used, transport types used, money spent during visits and the profile of visitors. This survey is used directly to estimate volumes, overall expenditure and (following manipulation) expenditure on commodities in Wales, and transport costs to Wales. Note the GBTS did not cover international or daytrip visits.
2. **The International Passenger Survey/Travel Trends**<sup>5</sup> – This provides annual estimates of travel and tourism visits to the UK of less than 12 months' duration, and associated earnings and expenditure between the UK and the rest of the world. It should be noted this includes *all* travel, including elements that are not relevant to staying tourism (such as overseas day trips and some work purposes). Further, information on the commodities purchased by visitors has not been published for some time, and expenditure by region is available for all trip-types only. It should be noted that the IPS *does not collect information on the cost of international travel*, meaning it is not consistent with the GBTS in ways that are important for our analysis (see Page 10).
3. **The UK Input Output Tables 2019**<sup>6</sup> and **Input-Output Tables for Wales 2019**<sup>7</sup> – Provide 'framing' information and fill some gaps, e.g. on commodity expenditure. The latter are of course instrumental in our modelling analysis.

Other data sources and approaches are used throughout, and these are detailed at the appropriate juncture in the following methodological and analytical sections.

### 2.2 Framing The Accommodation Supply Side

The IOTW for 2019 are published by 64 industrial sectors, following an ONS-established structure that corresponds (roughly) to 2-digit Standard industrial classification of economic activities codes (SIC). This structure is however unhelpful for Visitor Levy analysis, as it conflates accommodation and food service industries. Prior to analysis we therefore restructure the IOTW

---

<sup>3</sup> <https://www.gov.wales/great-britain-tourism-survey-2019>

<sup>4</sup> For the new integrated survey with a wider range of data collection approaches see <https://www.gov.wales/domestic-gb-tourism-statistics>

<sup>5</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/articles/traveltrends/2019>

<sup>6</sup>

<https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltablesindustrybyindustry>

<sup>7</sup> <https://orca.cardiff.ac.uk/id/eprint/151984/>

by splitting this sector into three; *Hotels etc. (SIC2007 55.1)*; *Other accommodation (55.2-55.9)* and *Food and beverage service activities (56)*<sup>8</sup>.

This enables a far more precise rendering of any economic 'shock' but is not straightforward. For example, the ONS does not report components of regional GVA for SICs 55 and 56 separately, and other methods (such as splitting the sector by employment share) are inappropriate given varying levels of self-employment and output per worker. Our approach is broadly thus as follows:

- The three new classes (55.1, 55.2-55.9 and 56) sum to relevant existing cells in the IOTW for 2019 (e.g. for total output, GVA, compensation of employees<sup>9</sup> and GHG emissions).
- Proportions of GVA, Output, Mixed income<sup>10</sup> and Compensation of Employees are divided between SICs 55 and 56 with reference to variables from the ONS published non-financial business economy, UK regional results for 2019<sup>11</sup> (inc. *Turnover, approximate GVA, Employment costs, total purchases of goods, services & materials*).
- Further disaggregation of key financial indicators into 55.1 and 55.2-55.9 is undertaken with reference to the 2007 *Input-Output Tables for Wales* and 2013 *Tourism Satellite Account for Wales*, weighted by relative changes in the shares of Business Register and Employment (BRES)-reported employment from 2009<sup>12</sup> - 2019<sup>13</sup>
- Purchases of intermediate products are divided by ratios described in prior IOTs and TSAs for Wales and with reference to TSAs from other polities.
- Workforce employment from IOTW is divided according to the ratios reported in the 2007 IOTs, weighted by the relative change in the 2019 BRES 3-digit FTE employment estimates for 2009-2019.
- GHG emissions are subdivided according to estimated sub-sector output.

The above approach is far from perfect. For example, it assumes that the ratios of GVA and output per worker within the hotel and other accommodation sectors have remained the same since 2007, with these then informing our split of financial variables. We also lack detailed and up to date information on the workforce (employees + self-employed) within our subsectors. Nonetheless, undertaking this imperfect disaggregation is superior to assessing the impact of the Visitor Levy based on a single Division / Accommodation & food service sector.

---

<sup>8</sup> Note that there are insufficient data to split the accommodation sector any further, or along the lines suggested for Levy Bands.

<sup>9</sup> Compensation of Employees is the total remuneration payable to employees in cash or in kind. Includes the value of social contributions payable by the employer.

<sup>10</sup> Mixed income is the operating profit of unincorporated businesses owned by households. Household members often provide unpaid labour inputs to the business. The profit is therefore a mixture of labour remuneration and return to the owner as entrepreneur.

<sup>11</sup>

<https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinesseconomyannualbusinesssurveyregionalresultssectionsas>

<sup>12</sup> The earliest available

<sup>13</sup> See [www.nomisweb.co.uk](http://www.nomisweb.co.uk)

We thus are presented with a 66-Sector IOT with additional detail for accommodation and food service covering differences in GVA, output, employment and mixed income, and the level of intermediate purchases<sup>14</sup>.

### 2.3 Estimating Baseline Visitor Demand

The prior section describes how we restructure our ‘Welsh tourism supply side’ to better reflect the impact of the Visitor Levy. A similar process is required on the *demand* side – to subdivide visitor consumption between our three new sectors, (the IOTW only reporting visitor consumption across the wider accommodation and food service sector). Here we refer to data collected via the *GB Tourism Survey (GBTS)*, with the Welsh Government producing and publishing the relevant data for Wales<sup>15</sup>.

The data include estimates of total trips, nights, and spending of domestic visitors in 2019 and this is split by commodity purchased, allowing a reasonably robust estimate of spending on accommodation by visitors to Wales<sup>16</sup>. The survey methodology does not however enable an estimate of accommodation spending by the type of facility we are looking to reveal here – firstly, hotels and B&Bs and secondly self-catering, camping, caravanning and other accommodation. Information on expenditure is not publicly available for this split.

Separately, however, the *Visit Wales Accommodation Occupancy Survey Annual Report 2019*<sup>17</sup> provides an estimate of annual average daily rate (ADR) for hotels. This average rate (around £67) is multiplied by the total number of visitor nights in Wales in hotels and B&Bs. We then estimate average room occupancy by the weighted average (by nights) in Wales of room nights spent by one- and two-person parties (hence 1.66 persons per room-night in 2019). Dividing our estimated aggregate revenue per room by occupancy provides an adjusted estimate for total income in hotels and similar accommodation (gross of VAT etc.) of around £315m in 2019. By remainder from the aggregate results in the GBTS we estimate income to other commercial accommodations at £505m.

This method is (again) imperfect. Firstly, we are combining two different surveys and datasets with different respondents, methods, and purposes, leading to possible inconsistencies. Secondly, ADR is not available for serviced B&B/guest house accommodation, and we are applying the hotel average to nights spend in such facilities, leading to a possible overestimate of income accruing to SIC 55.1. This notwithstanding, we estimate that the 32.8% of commercial-accommodation visitor nights spent in hotels etc. in Wales results in the accrual of 38.5% of wider sector revenue (i.e., a person-night in serviced accommodation is rather more expensive than a person-night in other accommodation, around £40 versus £32).

---

<sup>14</sup> Note the regional purchasing propensity for individual products will not vary between our new subsectors, but the proportions of product purchase in overall purchases will.

<sup>15</sup> <https://www.gov.wales/great-britain-tourism-survey-2019>

<sup>16</sup> Note this includes all visitor purposes, including business and visiting friends & relatives.

<sup>17</sup> [https://www.gov.wales/sites/default/files/statistics-and-research/2021-01/wales-accommodation-occupancy-survey-2019\\_0.pdf](https://www.gov.wales/sites/default/files/statistics-and-research/2021-01/wales-accommodation-occupancy-survey-2019_0.pdf)

The IOTW report a total expenditure on accommodation and serviced food, in basic prices<sup>18</sup>, of around £900m by British residents visiting Wales, and this expenditure is split across our new three sub-sectors using the approach derived above. Note that as there is almost no information available on the commodity spending of overseas visitors to Wales<sup>19</sup>, we apply the same proportions to (much smaller) spending by overseas visitors in Wales reported in *Travel Trends*.

## **2.4 Balancing the New Input-Output Table**

Note that the above approach to estimating supply and demand by discrete tourism product requires that demand equals supply for each (this compiling a 'symmetrical' IO table that allows multiplier analysis). As the demand and supply estimation is undertaken using different data sources, this does not occur as a matter of course. We thus require the table to be rebalanced – consumption or supply to be adjusted between each of our new visitor classifications (but keeping overall hospitality supply and demand consistent with 2019 aggregates).

Typically, this might be done using an algorithmic approach that minimises adjustments to rows (demand) and columns (supply) but we have here made that adjustment based on our judgement of the relative quality of relevant data sources<sup>20</sup>.

## **2.5 Introducing the Visitor Levy as a Demand Shock**

Following the above analyses, we now have a 'balanced' estimate of supply and demand in Wales for three hospitality sectors, placed within the wider IOTW. This allows a more sophisticated approach to assessing the impact of a Visitor Levy (VL). To make the estimation tractable, a suite of assumptions is required given the analytical structure and data availability:

1. The VL is either (a) passed on to visitors by businesses in total or (b) absorbed fully in business costs.
2. Where the cost is passed on, there will be behavioural changes as visitors react to increased holiday costs and change the likelihood of visiting Wales at the margin – and that this response will be proportional to the level of increased cost.
3. The likelihood of visitor response in the Welsh case is included in the universe of existing estimates of visitor price elasticity of demand (PED) in the report for the Welsh Government undertaken by Alma Economics in 2022<sup>21</sup>. Note that this meta-analysis reports PEDs from thirty studies, which can be used in concert to estimate PED for tourism in Wales.
4. *The VL is applied across all Welsh Local Authorities – and any visitors who amend their trips will wholly avoid Wales.*
5. The rate is set, exclusive of VAT, at £1.25 per person-night for most commercial accommodation (here titled Band 1) but with campsites and hostels (here Band 2) subject to a lower charge of £0.75.

---

<sup>18</sup> Net of directly imported goods, VAT & margins, and so not comparable to earlier figures

<sup>19</sup> Or indeed to the UK more generally.

<sup>20</sup> Detail available from author.

<sup>21</sup> See <https://www.gov.wales/sites/default/files/statistics-and-research/2022-09/evidence-review-of-elasticities-relevant-to-a-visitor-levy-in-wales-331.pdf>

6. They levy is however charged gross of VAT which is then transferred to the UK Government (and is not modelled in our regional multiplier analysis). There is not yet clarity on whether UK Government will charge (and retain) VAT, but the view of Welsh Treasury is that this is very likely (albeit a decision for HM Government in London).

These assumptions clearly mean that our approach is only indicative of likely future behaviours and outcomes – for example for (4), if only a subset of tourism-intense Local Authorities impose such a levy, visitors may visit other parts of Wales as a result, meaning far lower ‘net national’ economic losses. Without, however any data on either the relevant behaviours or the likelihood of Levy imposition across Wales, we cannot present a simulation of these more complex cases. Calculating and meaningfully reporting all combinations of Local Authorities would be extremely challenging - and we lack even the most basic supporting information at this spatial scale (e.g. annual numbers of overnighting visitors by UA). We do however note that our assumption of an all-Authority take-up of the Levy by implication means that here **we must present a ‘worst-case’ scenario** – i.e., assuming all dissuaded visitors take holidays elsewhere than Wales. In reality there is likely to be some substitution between destinations in Wales.

With these assumptions in mind, the process of analysis is as follows:

**A. 100% of VL Passed on:**

1. Average gross expenditure per trip (ET) on all items for 2019 those staying in Wales in commercial accommodation is estimated, alongside person nights<sup>22</sup>.
2. Average VL costs per trip (VLC) is assessed based on the suggested rates of £1.25 and £0.75 plus VAT, multiplied by average person-nights per trip.
3. The division of VLC by ET provides an estimate of the additional percentage cost of a visitor trip to Wales due to the Levy. This increase in cost then is applied to average trip cost to assess the likely level of reduced demand with reference to the Alma Economics range of reported elasticities.
4. We report on the outcome of weak, neutral and strong visitor responses, where the demand elasticity is represented by (respectively) the median of the lowest third of elasticities, the median of all elasticities, and the median of the highest third of elasticities<sup>23</sup>, as reported by Alma Economics.<sup>24</sup> These thus translate into *optimistic*, *neutral*, and *pessimistic* assumptions regarding visitor responses to the new Levy.
5. The three scenarios result in lower visitor trips and revenues to Wales (to varying degrees by visitor type). Overnight tourism to Wales is then scaled downwards resulting in lower visitor demand, and tourism activity that is smaller in financial and employment terms (direct effects). Tourism businesses (and workers) consequently demand fewer goods and services from other Welsh sectors leading to further negative multiplier impacts (*indirect effects*).

---

<sup>22</sup> The latest GBT covers 2021 and thus still impacted by COVID.

<sup>23</sup> As PED is (almost always) negative a number close to zero represents a weak relationship between price and demand; hence a PED of -10 (elastic) implies a 1% increase in price will see a 10% reduction in demand, but a PED of -0.1 (inelastic) implies a 1% increase in price will lead to a 0.1% reduction in demand. The ‘Highest’ elasticities are thus those that are most negative – i.e. lead to the largest visitor response.

<sup>24</sup> The Alma Economics report found a range of elasticities reflecting the characteristics of the destinations, different times considered, the different data and methodologies used in the studies. Here we adopt a cautious approach by using the median of the highest third of estimates reported.

6. We report the (annual) estimated economic changes to the economy in Wales in terms of GVA, disposable income, full-time equivalent employment, and 'other' (non-visitor levy) taxes on production<sup>25</sup>.
7. We report on the change in global GHGs that result from trips to Wales.
8. We provide an estimate of the impacts across the Welsh economy (in aggregate) as the Levy revenue is re-spent by local authorities across Wales (in similar variables as above).

Note we make some key decisions in favour of readability in this report. One of these is that whilst we report three scenarios for visitor response (i.e. assumptions on elasticity) we consider only one 'pair' of visitor levy rates. To include higher or lower rates would necessarily 'multiply' by our elasticity scenarios and become very complex to read and understand. Note however, that the companion XLSX tool, held by Welsh Treasury can produce results for different elasticity and levy assumptions 'on demand'<sup>26</sup>.

**B. 100% of VL absorbed by businesses:**

1. Total VLC assessed on the basis of 2019 visitor nights.
2. This revenue is deducted from (1) compensation of employees and (2) other value added based on the existing proportions of these value-added elements in the production functions of two relevant accommodation sectors (direct effects),
3. Losses that occur to compensation of employees result in further multiplier effects as tourism workers spend less and other sectors reduce in scale (indirect effects). Losses to other value added incur no further effects.
4. We provide an estimate of the positive impacts across the Welsh economy as the tax revenue is re-spent by local authorities across Wales (in similar variables as above).

Note, as in the previous case it is possible to make our analysis more complete – e.g. here including a '50% passthrough' (or any other percentage). We do not undertake this analysis, for reasons of brevity, modelling complexity, and a lack of any information on a reasonable percentage of pass through/absorption to choose. Readers can surmise partial-passthrough impacts would lie between the 100% and 0% absorption cases presented.

## **2.6 Modelling Constraints and Wider Context**

There are several methodological and conceptual issues to consider in our approach. Firstly, this is very much an average and linear analysis: we assess the 'average trip' to Wales, and reduce consumption in a linear fashion in both cases – for example, we do not change the nature of tourism trips in terms of duration, type of accommodation used etc. Responses would, in reality, be far more mixed. Related to the above (and a limitation of IO modelling) is that all business responses are linear – an  $X\%$  reduction in income leads to an  $X\%$  reduction in sector scale, employment, profits and intermediate purchases. In reality (again) there would be a variety of

---

<sup>25</sup> VAT (a tax on products, not production) is wholly leaked from the regional economy.

<sup>26</sup> Please contact author for further details.

responses with some businesses finding more efficiencies for example, and others changing the nature of their offer<sup>27</sup>.

Secondly, the scope of our analysis is Wales only. For example, other regions will benefit if visitors are lost to Wales and instead visit substitute destinations, but we cannot model these behaviours. Additionally, greenhouse gas savings that we report in Section 5 will be clawed back if visitors instead substitute other destinations (and indeed even more so if these are further away).

Thirdly, we are ignoring here some issues around the application of a levy, in the mid-2020s on a sector that is constrained to supply and demand in 2019. There are solid (data and compilation) reasons why a later base-year estimation is not possible. Instead, we have chosen our levy rate in consultation with Welsh Government colleagues to represent the latest current thinking (accepting this might change), and then deflated that rate from July 2023 to represent a June 2019 currency<sup>28</sup>. We cannot know what will happen to inflation in the period after the time of writing and before the Levy is implemented, but our attribution of a 2019-based flat levy to a 2019 sector (as a percentage shock) means that our results represent the best possible estimate of the current impacts of a Visitor Levy for Wales. Note however all our reporting here is reflat to £2023m.

Another issue relates to the applicability to Wales of the Alma Economics review of price elasticity of demand for tourism. Most studies – whether empirically undertaken from an inbound or outbound perspective – appear to<sup>29</sup> concentrate on the behaviour and responses of tourists undertaking international trips. Such visitors are very much the minority of visitors to (and in) Wales, comprising less than 10% of Wales' overnight visitor trips in our 2019 base-year. Further, and relatedly, most studies refer (explicitly or by implication) to *national* destinations, rather than regions. There is insufficient evidence published on whether PED is (typically) higher or lower for national destinations catering to (largely) overseas visitors when compared to regional destinations catering to (largely) national-domestic visitors<sup>30</sup>: is a German visitor more or less likely to substitute Greece for Spain, than a West-Midlander is to substitute Cornwall for Wales?

We note here that for our reference year of 2019, almost 60%, of overnight visitors in Wales are resident in Wales itself (19.2%), the North West of England (21.2%) or the West Midlands (18.7%). For these visitors, alternative (and alike) destinations to Wales that do not themselves imply travel costs (and travel times) greater than the marginal impact of the Levy are restricted to the north coast of Dorset and Devon (for the Midlands and south Wales), and the North West and Cumbrian coast (and with, of course, Scotland also about to have a similar tax). Economic rationality would suggest that *only if these destinations offer (at least) an experientially-equal offer to existing Welsh destinations would we see any significant losses to Welsh tourism*. If key Welsh

---

<sup>27</sup> We do not rehearse the varied limitations and caveats associated with modelling of IOTs here, but the interested reader is directed to Miller, R. E., & Blair, P. D. (2009). *Input-output analysis: foundations and extensions*. Cambridge University Press.

<sup>28</sup> Using ONS Consumer Price Indices for relevant industries; see <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation>

<sup>29</sup> The unit of analysis is not always clear, even when examining the original studies.

<sup>30</sup> There are a small number of subnational studies; apparently none that compare the same people across different trips; and of course estimates of PED vary widely even within studies.

destinations are sufficiently distinctive compared to (for example) Southport, Weston-Super-Mare, the Lakes, or Whitehaven, then actual visitor losses might be negligible. It is not however possible to model these 'quality relationships' – especially should Levy income be used to better manage and serve visitors, and improve Wales' tourism offer.

A final issue is that our IOT methodology cannot estimate changes in the accommodation supply-side, for example if providers exit, or are 'put off' entering the market by a tax. This is thus out of scope but may be worthy of further investigation.

**Related to all the above, note that this report must be read and understood within the context of the wider set of regulatory impact assessments and other relevant material produced by Welsh Government.**

All above discussions assume that part or all of any Visitor Levy is passed on to visitors in the form of increased prices (or an explicit surcharge, as happens in many extant cases). We examine the repercussions of this in Section 3 (with a 100% pass-on assumption), and in Section 4 address the case where the Levy is absorbed by businesses with no change in price charged to visitors.

### 3 Visitor Levy Economic Impact – 100% Levy Passed On

#### 3.1 Quantifying the Demand Shock

Under the assumption that some (or the entirety) of a Visitor Levy is passed on to customers, users of commercial accommodation will experience an increase in the cost of their accommodation, and consequently of their trip as a whole. Assuming the aggregate tourism demand curve is downward sloping, this implies fewer people will visit Wales – or perhaps that the same number will visit, but for an on-average shorter duration. We assume here that businesses pass on 100% of the Levy. The quantification process is as outlined in Table 1 below – using our neutral outcome as the example.

*Table 1 Percentage Change in Visitor Demand (Neutral)*

| £2019  | UK-resident visitors (Band 1 Accom) | UK-resident visitors (Band 2 Accom) | Overseas visitors |
|--|-------------------------------------|-------------------------------------|-------------------|
| Average per-trip expenditure                 | £230                                | £172                                | £258              |
| Average per-trip bed-nights                  | 3.21                                | 3.24                                | 7.09              |
| Per trip Visitor Levy (ex VAT)               | £4.02                               | £2.43                               | £8.86             |
| a As a % of trip cost                        | 1.7%                                | 1.4%                                | 3.4%              |
| b Elasticity                                 | -0.74                               |                                     |                   |
| Percentage change in consumer demand (a x b) | -1.3%                               | -1.0%                               | -2.5%             |

*Note: all arrivals using commercial accommodation are assumed to be Band 1.*

There are several issues to note in this process. Firstly, we predicate the impact of the levy as a percentage of total trip costs (as reported in GBTS 2019 for UK visitors, and as implied in Travel Trends 2019 for overseas visitors), not as a percentage of accommodation costs. This is because the visitor trip to (or in) Wales is a ‘composite’ product – the accommodation alone cannot provide the benefits of the trip independently from other recreational (or business), travel, food and other commodities consumed as part of the visit<sup>31</sup>.

**Note that expenditures reported for overseas visitors are low compared to dwell time in Wales. This is because the only data source, ONS’ Travel Trends are for ‘within destination’ (i.e., UK), and do not include non-UK costs, including air travel. The unavoidable impact is that we will significantly over-estimate the reduction in international visits to Wales post-Levy. This will have a modest (and pessimistic) impact on our reporting of overall economic impacts.**

The percentage changes in demand estimated in the process described in Table 1 are then applied to the baseline expenditure in 2019 by UK visitors using Band 1 and Band 2 accommodation, and by overseas visitors. This provides an estimate of the losses in visitor demand as fewer trips are taken to/in Wales after prices rise. As Table 2 shows, we would estimate this

<sup>31</sup> Note the Alma economics evidence base also relates to changes in the prices of tourism goods and services more generally. Also note our elasticity analysis and consumption baseline (with respect to trip cost and consequent levy percentage) only relates to UK visitors using accommodation within the scope of the Levy not those in excluded accommodation – for example, staying in their own second homes or with friends. Again, data from the GBTS are used to assess this percentage. The relevant information is not provided in Travel Trends/International Passenger Survey for inbound visitors to UK regions, so the UK percentage is here applied to Wales.

reduction in consumption demand at £35.2m (2019 prices) for our pessimistic scenario. This is not, however the end of the story. Each bed-night in Wales now results in additional levy revenue – estimated at £30m (2019 prices) under the foregoing elasticity assumption (Table 1). Note then, because VAT accrues to the UK Government, the addition to public sector revenue does not fully offset the losses in trip expenditures (which would otherwise be the case for this central projection).

*Table 2 Quantifying the Change in Visitor Demand (Neutral)*

| £2019   | UK-resident visitors (Band 1 Accom) | UK-resident visitors (Band 2 Accom) | Overseas visitors | Total   |
|---|-------------------------------------|-------------------------------------|-------------------|---------|
| Baseline Expenditure by Relevant Visitors         | £1,624m                             | £107m                               | £515m             | £2,246m |
| Percentage change in demand                       | -1.3%                               | -1.0%                               | -2.5%             | -1.6%   |
| Post-Visitor Levy Trip Expenditure                | £1,603m                             | £106m                               | £502m             | £2,211m |
| Trip Expenditure Losses (direct) £2019            | -£21.0m                             | -£1.1m                              | -£13.1m           | -£35.2m |
| Trip Expenditure Losses (direct) £2023 (reflated) | -£25.5m                             | -£1.4m                              | -£15.9m           | -£42.7m |
| Post-levy bed-nights (million)                    | 22.38                               | 1.99                                | 7.07              | 31.44   |
| Visitor Levy Revenue £2019 (ex VAT)               | £22.1m                              | £1.2m                               | £7.0m             | £30.3m  |
| Visitor Levy Revenue £2023 (reflated) (ex VAT)    | £26.9m                              | £1.43m                              | £8.5m             | £36.8m  |

Our estimates of gross expenditure losses and public revenue gains resultant on the Levy are illuminating, but do not represent regional economic impact. This is for several reasons.

- Visitor expenditure losses include VAT and other duties on tourists' spending which accrued to the UK government and did thus not impact the regional economy pre-Levy.
- Some trip expenditures would not occur in Wales (e.g., on travel) and hence are not lost to Wales if the trip does not take place.
- There are additional 'multiplier' impacts along supply chains and due to wage effects; these are wholly missing from Table 2.

To be clear: **these consumption and revenue impacts must be translated into regional economic impacts, which are causally correlated but different in concept, geography, and impact.** We rely for this upon the Input Output Tables and Tourism Satellite Account for Wales. These impacts are reported in the following Section (and in Table 4).

### **3.2 Impacts on the Visitor Economy**

The baseline expenditure for each visitor type reported in Table 2 is amended to remove VAT and non-regional spending. The resultant figure is then multiplied by the Levy-related percentage change in consumer demand (for Band 1, Band 2, and overseas visitors separately) to estimate

the relevant reduction in regional economic demand for UK (in aggregate<sup>32</sup>) and overseas visitors. We then assess the impact on the Welsh visitor economy using optimistic, neutral and pessimistic scenarios (Table 3).

**Table 3 The Three Scenarios**

| <b>Scenario</b> | <b>Elasticity</b> | <b>Source</b>                                    |
|-----------------|-------------------|--|
| Optimistic      | -0.38             | Median of the lowest third of Alma elasticities  |
| Neutral         | -0.74             | Median of all relevant Alma elasticities         |
| Pessimistic     | -1.12             | Median of the highest third of Alma elasticities |

The resultant expenditure reductions are then hypothetically extracted from economic demand in Wales arising from UK (including Wales-resident) and overseas visitors, leaving it lower in both cases. This leads to direct and indirect reductions in output, income, value added and (non-Levy) levy take across the Welsh economy.

Economy-wide visitor Levy-related Trip expenditure related losses in Welsh economic output (in 2023 terms) range from an estimated -£16.1m in the most optimistic scenario, to -£47.5m (Table 4). This reduction in demand arises mostly from businesses directly serving visitors, i.e., largely in hospitality and transport but also includes along their supply chains and via induced income effects – i.e., as those businesses in turn require fewer regional labour units, raw materials, and intermediate inputs.

The reduction in economic activity has implications for other economic aggregates. The total (direct and indirect) loss to Gross Value Added is estimated in the range of -£9.1m to -£26.8m whilst total disposable income would fall by between -£4.3 and -£12.6m.

**Table 4 Annual Whole-Economy Visitor Expenditure-related Losses of a Visitor Levy**

| <i>All Direct + Indirect, £2023m</i>            | <i>Optimistic</i> | <i>Neutral</i> | <i>Pessimistic</i> |
|---|-------------------|----------------|--------------------|
| Output  | -£16.1            | -£31.4         | -£47.5             |
| Disposable Income                               | -£4.3             | -£8.3          | -£12.6             |
| Gross Operating Surplus                         | -£3.1             | -£6.0          | -£9.1              |
| Income & Self Employment Tax, Pensions          | -£1.4             | -£2.7          | -£4.1              |
| Taxes Less Subsidies on Production              | -£0.4             | -£0.7          | -£1.1              |
| Gross Value Added                               | -£9.1             | -£17.7         | -£26.8             |
| <i>Approximate percent of Welsh Economy GVA</i> | <i>-0.011%</i>    | <i>-0.022%</i> | <i>-0.033%</i>     |
| Full-Time Equivalent Employment                 | -250              | -485           | -730               |
| <i>Approximate percent of Welsh Workforce</i>   | <i>-0.018%</i>    | <i>-0.035%</i> | <i>-0.053%</i>     |

Note: Will not sum due to separate rounding.

<sup>32</sup> This is necessary as the IO Tables do not have separate demand vectors for Band 1 and Band 2 accommodation visitors, although we can estimate gross expenditure for each.

Gross employment losses consequent on the Levy would range from -250 FTEs to -730 FTEs across the economy in our scenarios.

Although these impacts are felt across the entire economy, the concentration of visitor spending in a small number of labour-intensive industries means that impacts on employment are somewhat greater than on financial economic aggregates. For the Neutral scenario, we estimate around 485 full time equivalent workforce jobs<sup>33</sup> would be lost following the introduction of the visitor levy. This equates to approximately 0.035% of the 2019 Welsh regional workforce, whilst gross value added losses are only an estimated 0.022% of the regional total.

As Table 5 shows, in the Neutral<sup>34</sup> case around 345 FTEs (or approximately 70%) of these losses would be occur within accommodation and food services, and another 50 FTEs (10%) in the retail and wholesale sector.

**Table 5 The Employment Impacts of a Visitor Levy**

| <i>Full time equivalent workforce</i> | UK Visitors | Overseas Visitors | Total       |
|---------------------------------------|-------------|-------------------|-------------|
| Primary Industries                    | *           | *                 | *           |
| Manufacturing                         | *           | *                 | -10         |
| Utilities & Construction              | *           | *                 | -10         |
| Wholesale & Retail                    | -45         | *                 | -50         |
| Transport services                    | *           | *                 | -10         |
| Accommodation & Food Services         | -275        | -70               | -345        |
| Other Private Services                | -20         | *                 | -30         |
| Public Sector & other                 | -25         | *                 | -30         |
| <b>All Sectors</b>                    | <b>-395</b> | <b>-90</b>        | <b>-485</b> |

Note: \* - suppressed as losses fewer than 10FTEs. Rounded to nearest 5. Will not sum due to independent rounding.

### **3.3 Visitor Levy-Consequent Public Sector Expenditure Revenue Effects**

As noted in Section 2.3, any Visitor Levy would, if it resulted in higher prices for accommodation, result in reduced business income and economic activity, but also consequent new economic activity as local authorities re-spend the new Levy revenue – whether directly in support of tourism, or on a wider set of activities.

We are able, within the Input-Output Tables, to assess the direct and multiplier benefits of this expenditure in a conceptually similar way to the assessment of potential losses described in Section 3.2 Such an assessment can only be indicative, as we do not know what activities or infrastructures might be supported by Levy-consequent public spending – and indeed, whether this would occur in-year or in the financial years following the accrual of Levy income.

This section however provides an illustrative example of how new public spending would serve to offset – in part – the losses to the tourism economy following reductions in visitor spending. A Levy would effectively comprise a direct, short-term transfer of revenue from the private to the public sector, albeit with the expectation that Levy revenue would benefit Welsh businesses in the longer

<sup>33</sup> Including self-employed.

<sup>34</sup> Industry totals can be scales linearly by FTE totals to estimate losses in the Optimistic and Pessimistic scenarios.

term as the income was used to support a more resilient, sustainable, and higher value set of visitor activities<sup>35</sup>.

We cannot know the details of Levy-consequent public expenditure. Thus, to enable our illustrative analysis, we make the following assumptions.

1. As Levy income is (assumed here) VAT-able, only the remainder is available for local authorities in Wales to spend, with the VAT element 'leaking' from Wales and thus not available to Local Authorities for expenditure purposes.
2. All remaining Levy income is spent in the same year as its accrual (following relevant transformations and discounting of non-regional elements).
3. Half of the revenue is spent on maintaining or expanding current services, and half on infrastructure or capital developments.
4. The 'current' expenditure pattern (in terms of commodities) follows that of public sector spending as reported in the 2019 IOTW.
5. Capital elements are modelled following the spending pattern for Gross Fixed Capital Formation (GFCF) as reported in the 2019 IOTW.

It is worth noting that capital expenditures (GFCF) result in a higher level of economic leakage from Wales (per £1m expenditure) with Wales having very few headquartered 'Tier 1'<sup>36</sup> suppliers in relevant sectors. It is, of course possible that individual Authorities may spend a lower percentage of Levy income on capital expenditure, particularly for smaller 'pots'. Higher spend on revenue rather than capital projects would (under our modelling approach) increase local economic impacts<sup>37</sup> but we consider a 50:50 split is reasonable in the absence of any survey or other data – and where some Levy funds will likely be substantial even at UA level.

After accounting for VAT and leakages from the Levy revenue as detailed in Table 2, consequent new public spending would result, in the Neutral scenario, in a £34.8m increase in Output in Wales (direct plus multiplier effects). As with Levy-consequent reductions in economic output, increases in public-sector spending related to Levy income would impact other economic value-added elements such as income and profits. These positive impacts are estimated in Table 6<sup>38</sup>, summing to around £20m in GVA. Additional current and capital expenditure consequent on Visitor Levy re-spending would support around 345 FTE jobs across Wales. Employment would be created predominantly in the public sector, and in construction activities. Note the lack in variation in public expenditure-consequent economic impact reported across the three scenarios. This occurs because the Levy is charged on *all* visitor nights staying in Wales, and this baseline moves very modestly, even in the most pessimistic scenario.

---

<sup>35</sup> Not possible to model here.

<sup>36</sup> The key 'first-round' suppliers who bid directly for large contracts then subcontract further.

<sup>37</sup> For example, if we used a '100% revenue support' assumption in Table 6, employment impacts would increase by around 40% in each case.

<sup>38</sup> We ignore here the losses to public sector revenue as business rates & regional tax-take reduces following Levy-related reduction in economic activity. These losses will be very small (much less than £1m).

**Table 6 The Estimated Whole Economy Annual Impact of Levy-Consequent Public Spending**

| <i>All Direct + Indirect, £2023</i>             | <i>Optimistic</i> | <i>Neutral</i> | <i>Pessimistic</i> |
|---|-------------------|----------------|--------------------|
| Output  | £35.2             | £34.8          | £34.6              |
| Disposable Income                               | £9.4              | £9.3           | £9.3               |
| Gross Operating Surplus                         | £5.9              | £5.9           | £5.9               |
| Income & Self Employment Tax, Pensions          | £4.3              | £4.2           | £4.2               |
| Taxes Less Subsidies on Production              | £0.2              | £0.2           | £0.2               |
| Gross Value Added                               | £19.9             | £19.7          | £19.6              |
| <i>Approximate percent of Welsh Economy GVA</i> | <i>0.024%</i>     | <i>0.024%</i>  | <i>0.024%</i>      |
| Full-Time Equivalent Employment                 | 350               | 345            | 340                |
| <i>Approximate percent of Welsh Workforce</i>   | <i>0.025%</i>     | <i>0.025%</i>  | <i>0.025%</i>      |

### 3.4 The Net Economic & Business Impact of the Visitor Levy

'Netting off' increases in regional economic activity from Levy-consequent public expenditure from losses in the visitor economy suggests modest overall losses – ranging from +£10.8m to -£7.3m of GVA per annum across the scenarios (in 2023 prices). Net employment losses range between effectively zero in the optimistic scenario, to around 390 FTE job losses in the most pessimistic. The latter comprises around 0.028% of Welsh annual FTE employment, with this number higher than for financial metrics (less than 0.01% losses) due to the labour intensity of tourism activities relative to the wider economy (Table 7).

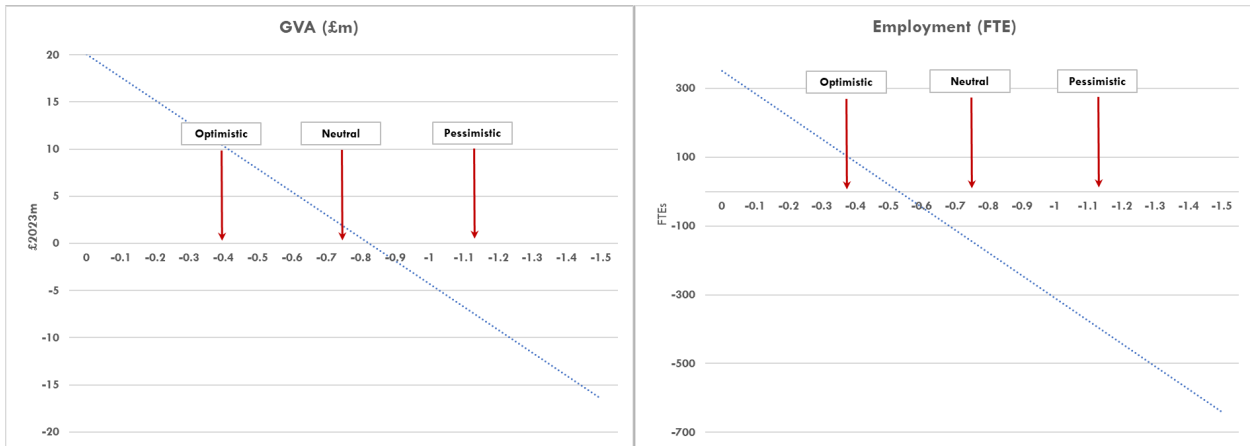
**Table 7 The Estimated Whole Economy Net Annual Impact of Levy-Consequent Public Sector Expenditure**

| <i>All Direct + Indirect, £2023</i>             | <i>Optimistic</i> | <i>Neutral</i> | <i>Pessimistic</i> |
|---|-------------------|----------------|--------------------|
| Output  | £19.0m            | £3.4m          | -£12.9m            |
| Disposable Income                               | £5.2m             | £1.0m          | -£3.3m             |
| Gross Operating Surplus                         | £2.9m             | -£0.1m         | -£3.2m             |
| Income & Self Employment Tax, Pensions          | £2.9m             | £1.5m          | £0.1m              |
| Taxes Less Subsidies on Production              | -£0.2m            | -£0.5m         | -£0.9m             |
| Gross Value Added                               | £10.8m            | £1.9m          | -£7.3m             |
| <i>Approximate percent of Welsh Economy GVA</i> | <i>0.013%</i>     | <i>0.002%</i>  | <i>-0.009%</i>     |
| Full-Time Equivalent Employment                 | 100               | -140           | -390               |
| <i>Approximate percent of Welsh Workforce</i>   | <i>0.007%</i>     | <i>-0.010%</i> | <i>-0.028%</i>     |

Note: Tables 5-7 will not add due to separate rounding

It should be noted that the modelling produces linear responses to changes in elasticity assumptions, and thus estimates of net changes can be derived for any suggested elasticity (Figure 1).

**Figure 1 The Net Annual GVA and Employment Change Impacts of Different Elasticity Assumptions**



## 4 Visitor Levy Economic Impact – Absorbed by Business

### 4.1 Quantifying the Direct Business Shock

Our assumption in this alternative scenario that accommodation businesses do not pass on any of the cost of the Visitor Levy means that there is no change to the aggregate level of visitation to Wales. Whilst accommodation revenues thus remain unchanged, business expenditures are increased in line with the number of bed-nights multiplied by the Levy rate (for relevant bands) – in aggregate, some £43.5m in 2023 prices<sup>39</sup> (deflated to £35.8m to 2019 prices for modelling purposes). With VAT added, this reaches a total of £52.2m in 2023 prices (and £43.0m in 2019 terms).

Thus, taking the 2019 visitor supply side as a baseline, we assume that the £43m (Levy-plus-VAT) is paid from business revenues. We further assume that tourism businesses are unable to reduce intermediate input costs in response the consequent ‘squeeze’ on business finances<sup>40</sup>. Instead, required savings are found from within elements of value added, which are reduced linearly based on existing value added composition in each of our two hospitality sectors.

### 4.2 ‘Indirect’ Elements – and hence total losses

Most Input-Output analyses require the estimation of supply-chain responses to an economic shock. Our assumption here is that neither input prices change, nor do visitor volumes, nor economic scale. This means that there are no ‘Type 1’ supply chain multiplier effects. There are however some indirect effects consequent on the Levy squeeze, reducing income to be spent (in part) across the Welsh economy, and resulting in a modest further reduction to economic activity. Table 7 provides this calculation (after reflation to 2023 prices) estimating total value added losses to the Welsh economy at -£61.8m<sup>41</sup>.

**Table 8 Annual Visitor Levy Economic Losses - 100% Absorption**

|   | Direct Levy-Related Losses |             |        | Induced (wage) effects |             |       | Total (direct+induced) effects |             |        |
|---|----------------------------|-------------|--------|------------------------|-------------|-------|--------------------------------|-------------|--------|
|   | Hotels                     | Other Accom | Total  | Hotels                 | Other Accom | Total | Hotels                         | Other Accom | Total  |
| All £2023m  |                            |             |        |                        |             |       |                                |             |        |
| <b>Disposable income (workforce)</b>                    | -£23.5                     | -£5.4       | -£28.9 | -£7.9                  | -£1.7       | -£9.6 | -£31.4                         | -£7.1       | -£38.5 |
| <b>Gross Operating Surplus (excluding mixed income)</b> | -£8.8                      | -£3.7       | -£12.5 | -                      | -           | -     | -£8.8                          | -£3.7       | -£12.5 |
| <b>Income &amp; self emp. tax, pensions</b>             | -£6.8                      | -£1.1       | -£7.9  | -                      | -           | -     | -£6.8                          | -£1.1       | -£7.9  |
| <b>Taxes less subsidies on production</b>               | -£1.5                      | -£1.4       | -£2.9  | -                      | -           | -     | -£1.5                          | -£1.4       | -£2.9  |
| <b>Gross Value Added</b>                                | -£40.6                     | -£11.6      | -£52.2 | -£7.9                  | -£1.7       | -£9.6 | -£48.5                         | -£13.3      | -£61.8 |

Note: Will not add due to independent rounding

<sup>39</sup> This is higher than the Levy revenue reported in Table 2 as bednights do not decrease if prices remain static.

<sup>40</sup> This is probably de facto true in most cases, for example where tourism businesses are very small, but also required to make our analysis manageable.

<sup>41</sup> Note this analysis implies employees reduce wages in line with the lost revenue and employment level remains unchanged.

### 4.3 Visitor Levy-Consequent Public Sector Expenditure & Net Revenue Effects

Welsh Local Authorities will gain extra spending power whether businesses absorb or pass on the Levy. Indeed, in the absorption case Levy revenue is modestly higher as the visitor economy does not shrink. Using the assumptions detailed in Sections 2.4 and 3.3 above, we estimate the additional GVA benefits at £20m. The net-effect of the ‘absorption’ case is therefore a loss of £40m in gross value added to Wales, which includes a loss of almost £30m in disposable income<sup>42</sup>.

**Table 9 The Estimated Whole Economy Net Annual Impact of Levy-Consequent Public Spending (Absorption)**

| £2023                                  | Levy-related losses | Public Expenditure benefits | Net Impact |
|--|---------------------|-----------------------------|------------|
| Disposable Income                      | -£38.5              | £9.5                        | -£29.0     |
| Gross Operating Surplus                | -£12.5              | £6.0                        | -£6.5      |
| Income & Self Employment Tax, Pensions | -£7.9               | £4.3                        | -£3.5      |
| Taxes Less Subsidies on Production     | -£2.9               | £0.2                        | -£2.7      |
| Gross Value Added                      | -£61.8              | £20.0                       | -£41.7     |
| FTE Employment (see footnote)          | n/a                 | 350                         | 350        |

Note: Will not add due to independent rounding

<sup>42</sup> Note that the net additional employment of 350 FTE jobs is an artefact of our assumptions effectively reducing wages in accommodation sectors and avoiding job losses.

## 5 The Visitor Levy and Welsh Greenhouse Gas Emissions

### 5.1 Methodology & Background

The Input-Output Tables for Wales have long benefitted from an environmental module that allows an appreciation of the greenhouse gas (GHG) emissions implications of Wales' economic activity. This has been combined with the Tourism Satellite Account to provide novel and policy-relevant intelligence on the relationship between tourism to (and in) Wales, and the climate<sup>43</sup>.

This enables here an appreciation of how changes in the scale of tourism to and in Wales, consequent on a Visitor Levy, would reduce GHG emissions to the atmosphere – and conversely, create counterbalancing emissions as local authorities spent the consequent revenue. This section presents the results of that analysis.

Our assumptions closely follow those detailed in Sections 2 and 3 above. Our methodology and coverage, however, differs somewhat. In detail:

1. We are able to include all GHG emissions arising consequent on tourism trips and in tourism supply chains globally, including in private and public transportation taken by visitors to get to/from/around Wales (albeit with lower accuracy for non-UK supply chain effects).
2. We only count **Welsh trip-related outcomes**: that is, ignoring 'counterfactual' emissions that arise if visitors go elsewhere, or stay at home. This is, of course unlikely in the real world and tourism emissions will be 'displaced' if visitors travel to other UK regions rather than Wales.
3. Percentage changes in visitation from UK-domestic and overseas visitors respectively resultant on the Levy in our **Neutral** scenario are applied to the baseline whole-trip GHG emissions to estimate reductions in emissions.
4. Emissions consequent on increased public sector expenditure are assessed by estimating the ratio of GHG emissions to public and capital expenditure respectively from the IO Tables<sup>44</sup>.
5. Changes are reported in tonnes of CO<sub>2</sub> equivalents (CO<sub>2</sub>e).
6. We only address the scenario where 100% of the Levy is passed on – modelling the GHG impacts of reduced wages in the 'absorption' scenario is overly challenging<sup>45</sup>.

Full details on the methodology used to assess tourism emissions are available from Jones (2023)<sup>46</sup>.

---

<sup>43</sup> See for example Jones, C. (2013). Scenarios for greenhouse gas emissions reduction from tourism: An extended tourism satellite account approach in a regional setting. *Journal of Sustainable Tourism*, 21(3), 458-472. <https://orca.cardiff.ac.uk/id/eprint/43540/>

<sup>44</sup> In £2019 and including all direct/indirect, Wales/rest of world emissions.

<sup>45</sup> More on why is available from the author.

<sup>46</sup> Jones, C. (2023). The carbon footprint and decarbonisation (or not) of tourism: insights from environmentally-extended regional input output analysis. <https://orca.cardiff.ac.uk/id/eprint/156224/>

## 5.2 Results

As Table 10 shows, given the assumptions detailed above and elsewhere, the imposition of a visitor levy, if 100% passed on by business, results in a reduction in Wales' tourism GHG footprint of 41,000 tonnes of CO<sub>2</sub>e per annum – some 1.6%. This reduction is equivalent to around 0.12% of Wales' 2019 estimated consumption carbon footprint<sup>47</sup>.

Table 10 also shows that as the public sector re-spends Levy income on current and capital activities, economic activity, jobs, incomes and hence GHG emissions rise, here by an estimated 7,000 tonnes per annum. The net effect is thus a net change of around -32,000 tonnes in Wales' GHG emissions footprint. This reduction in Wales' global carbon footprint is equivalent to around 0.1% of Wales' annual consumption-based GHG footprint.

**Table 10 Visitor Levy-Consequent Changes in Wales' GHG Footprint (tCO<sub>2</sub>e) - 100% Passed On**

| <b>Total Relevant Baseline GHG Tourism 2019</b>                             |           |
|---|-----------|
|   | Total     |
| Wales   | 654,000   |
| Outside Wales   | 1,424,000 |
| Total   | 2,079,000 |
| <b>Post-Visitor Levy Visitor Emissions to &amp; In Wales</b>                |           |
| Wales   | 645,000   |
| Outside Wales   | 1,392,000 |
| Total   | 2,038,000 |
| <b>Levy-related Reduction in Wales Tourism GHG Emissions</b>                |           |
| Wales   | -9,000    |
| Outside Wales   | -32,000   |
| Total   | -41,000   |
| <b>Visitor Levy Public Expenditure Consequent Increase in GHG Footprint</b> |           |
| <i>Increase in Wales Tourism GHG Emissions</i>                              |           |
| Wales   | 7,000     |
| Outside Wales   | 2,000     |
| Total   | 9,000     |
| <b>Net Change in Wales Tourism GHG Emissions</b>                            |           |
| Wales   | -2,000    |
| Outside Wales   | -30,000   |
| Total   | -32,000   |

Note that percentage savings in GHG are far larger than percentage economic losses. This is due to avoidance of significant CO<sub>2</sub> from travel (especially international air travel): i.e. tourism in Wales is (currently) a relatively climate-damaging economic activity. The UK central estimate of the social cost of carbon for 2023 (£250 per tonne<sup>48</sup>) would value these savings at £8m.

<sup>47</sup> <https://www.gov.wales/sites/default/files/publications/2022-12/final-statement-of-progress-cb1.pdf>

<sup>48</sup> <https://www.gov.uk/government/publications/valuing-greenhouse-gas-emissions-in-policy-appraisal/valuation-of-greenhouse-gas-emissions-for-policy-appraisal-and-evaluation>

## 6 Summary

### 6.1 Background

We use a long-established, extensively peer reviewed, and Wales-bespoke Cardiff Business School economic account to model the economic and climate impact of the proposed Visitor Levy. Welsh Government data was used to further modify this “*Input-Output Table*” to further refine the representation of Wales’ accommodation sector.

Results from the Alma Economics’ *Evidence review of elasticities relevant to a visitor levy in Wales* were used to estimate the likely response of visitors to higher post-Levy costs of any overnight trip to Wales (the *price elasticity of demand*). We present three scenarios across the range of Alma results, from a relatively weak relationship between price and visitor behaviour through to (pessimistically) assuming a strong relationship.

Limitations in data and modelling means we assume the Levy is employed by all relevant authorities and thus there is no within-Wales visitor destination switching – both very unlikely in practice, and thus with this very much a worst-case scenario. Levy rates were set at £1.25 and £0.75 for Band 1 and 2 respectively. VAT is then added.

### 6.2 Economic Impact

Our modelling suggests that, under our *neutral* elasticity assumption, visitor demand shrinks by around 1.6% if accommodation businesses pass on 100% of Levy costs. This results in estimated direct and ‘multiplier’ yearly losses of £17.7m in gross value added and 485 FTE jobs across the Welsh economy (most in the visitor economy).

These impacts are in part counterbalanced as local authorities re-spend Levy income (in part) on Welsh goods and services. We estimate that near £20m of new value added, and 345 FTE jobs are created annually because of this new spending. In *net* terms then, a Visitor Levy at the level and type assumed would see a reduction of £1.9m in Wales’ annual gross value added (effectively zero in a £70bn+ economy), and a loss of 140 FTE jobs. Note that the Welsh economy creates and destroys around 100,000 jobs each year, with net changes typically in the tens-of-thousands<sup>49</sup>.

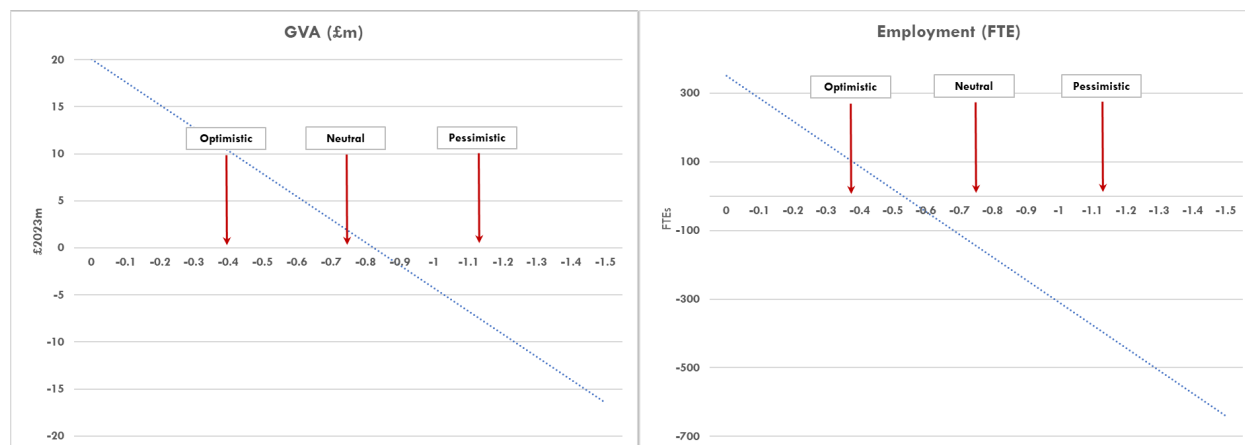
If Levy costs are borne wholly by the accommodation sector, with the Levy absorbed in existing price structures, net economic losses are larger at around £40m of GVA per annum.

Net economic changes overall might then range between +£10.8m and -£42m of GVA – but this assumes visitors will desist from coming to Wales following the imposition of the tax, and instead choose from a relatively limited set of near destinations.

---

<sup>49</sup> <https://www.gov.wales/gross-employment-flows-or-employment-churn-wales-2011-2014>; [www.nomisweb.co.uk](http://www.nomisweb.co.uk)

Our estimates of net economic impact are fundamentally reliant on our assumptions regarding visitor behavioural responses to price changes. Figure 1 below demonstrates this by displaying the estimated net annual effect on the Welsh economy of different PED assumptions. For example, an illustrative unit-elastic assumption of visitor response (i.e., a PED of -1) would imply a net decrease of around -£4.3m in GVA, and just over 310 FTE job losses.



### 6.3 Climate-Relevant Greenhouse Gas (GHG) Impacts

Using a parallel methodology to our economic analysis we can estimate the changes in Wales-tourism related GHG emissions – occurring both inside and outside Wales – and also the GHG emissions consequent on new public sector expenditure.

We estimate the reduction in Wales’ tourism GHG global footprint at 41,000 tonnes CO<sub>2</sub>e per annum, with public spending adding 9,000 tonnes of CO<sub>2</sub>e and hence a net reduction of 32,000 tonnes of CO<sub>2</sub>e. Using UK Government estimates of the social cost of carbon would value these savings at over £8m.

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted