

Quinquennial Review of the Wales Tourist Board

Interim Report

(Draft: April 2002)

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Executive Summary and Recommendations

Executive Summary

1. *The Interim Report of the Quinquennial Review of the Wales Tourist Board (WTB) concludes that there is a continuing need for the functions carried out by the WTB, and that, for the forthcoming periods the functions should continue to be performed by an Assembly Sponsored Public Body. However, a number of recommendations are made for changes in way those functions are undertaken and for developing the evidence base that underpins WTB activities.*

Background

2. *The Quinquennial Review of the Wales Tourist Board (WTB) has been undertaken in accordance with the Welsh Assembly Government's published guidelines for conducting such reviews. This report covers stage one of the review, including issues related to the functions and strategic effectiveness of the WTB. An extensive programme of consultation has been undertaken, and the results of this consultation have been reviewed in the light of desk research and analysis.*

3. *WTB is an Assembly Sponsored Public Body. The board and chairman are appointed by the Assembly's First Minister. The Welsh Assembly Government also provides the main budgetary support. Principal guidance is provided in the annual Remit Letter. Within the guidelines set by the Remit Letter, the WTB determines its own priorities.*

4. *The main recommendations of the preceding review, carried out in 1992-93, have been carried out.*

Context

5. *The value of Welsh tourism to the Welsh economy can be measured in terms of the contribution made to GDP. The reviewer's estimate of the contribution lies between 4% and 5% on the new measure of UK tourist expenditure, and 2.5% and 4% on the older measure, both including major multiplier effects. The main influence on the precise location within these ranges of a point estimate is the assessment made of the nature of tourism day visits. In the reviewer's opinion, an estimate most relevant to the work of the WTB would be at the lower end. (These estimates are rather lower than some earlier estimates made by others, but reflect the principles of national accounting. Estimates on a similar basis have recently been published for Scotland.)*

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6. *Over the longer term, the contribution of tourism to the economy in Wales has declined since the 1970s, with small proportionate increases in overseas spending failing to compensate for larger reductions in domestic (UK) spending. There are indications that the decline may have stabilised over the 1990s.*

7. *Welsh tourism may account for, very approximately, 75,000 jobs in Wales, or about 6% of the total. The local authority areas where there is the highest dependency on tourist employment are Conwy, Gwynedd and Pembrokeshire. On average, jobs in tourism-related industries tend to be relatively low- paid and low-skilled. In rural areas, the contribution of tourism to the economy is greater than that of agriculture in most local authority areas, and in many areas significantly so. The main exceptions are Powys and Carmarthenshire.*

Rationale

8. *The economic rationale for the functions of the WTB is based on market failure. A market failure is a specific imperfection of the market mechanism. Government intervention is justified where there are good reasons to believe it can correct such imperfections in a cost-effective manner. The social rationale for the functions of the WTB is based on the case for supporting economic activity in target areas.*

9. *There appears in principle a clear rationale for most of the major activities carried out by the WTB. However, this is dependent on the scope for cost-effective intervention to correct the identified market failures and achieve the desired social objectives. Evidence from evaluation studies is crucial for assessing the scope for such action in practice. The rationale for investment grants specific to tourism businesses may be less clear-cut, particularly outside areas where there is a general deficiency in economic activity.*

Consultation

10. *An extensive consultation programme has been undertaken, comprising the analysis of written submissions, meetings with members of the trade and with other public sector organisations, and a telephone survey of individual businesses.*

11. *The interpretation of consultation responses is not straightforward, as consultees will not always be in a position to take full account of the WTB's rationale and wider responsibilities.*

12. *Mainly positive and supportive comments were received, and there was no support for the abandonment of the WTB's functions, and little support for radical change to organisational structures.*

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13. *The most commonly expressed concerns of the trade focused on the prospective role for the new Regional Tourism Partnerships (RTPs); the management of the process leading to the formation of the RTPs; responsiveness of the WTB to (some sectors of) the trade; and the transparency of the WTB's processes, especially in respect of the operation of the board itself.*

14. *The main concerns expressed by the public sector concerned the commitment of the WTB to genuine partnership working.*

Effectiveness

15. *It is extremely challenging to produce an objectively-based assessment of the effectiveness of the WTB. This is because ultimate outcomes are affected by many factors outside the WTB's control, and because it is hard to assess in practice "what would have happened otherwise". Nevertheless, information on trends in tourist expenditure and on other target variables; a review of evaluation studies; and, an examination of processes and relationships can all help inform an overall judgement on effectiveness.*

16. *The performance of the Welsh tourist industry over the last decade appears to be moderate, when seen in the context of tourist expenditure in the UK as a whole. This applies to both UK and overseas tourism (where the WTB commenced direct marketing activities in 1993). However, this performance is certainly no worse, and perhaps better, than that of Scotland (or in the case of overseas tourism, England outside London). It is difficult to draw any direct conclusions from this about the performance of the WTB.*

17. *Long-term and short-term marketing may be distinguished. The former is concerned with image creation and promotion, the latter with generating visits.*

18. *It is particularly difficult to evaluate fully the effectiveness of long-term marketing. The approach followed by the WTB is to monitor changes in the public's image of Wales and attempt to relate such changes to its campaigns through "tracking studies". Short-term marketing is more amenable to evaluation, which is undertaken by assessing its cost-benefits (termed the "return on investment" - ROI).*

19. *Short-term marketing appears very cost-effective, but there are limitations in the methods used to assess ROI. The expenditure may not be fully additional. All costs are not taken into account. And expenditure generated will be greater than the value-added created in Wales.*

20. *ROI is much higher for UK than for overseas marketing. This may reflect the greater component of image-building in the latter. But if so, one would expect to see ROIs converge over time. If this does not occur, the overseas marketing in question is unlikely to be cost effective.*

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21. *The most recent evaluation of the WTB's investment support scheme concluded that it exhibited a good performance in terms of economic impact. However, this conclusion was dependent upon critical assumptions about additionality and displacement, both of which are open to question. It seems likely that major benefits are most likely for larger projects (or integrated "clusters" or smaller projects) that target new markets and are located where labour markets are less tight.*

Options for the future

22. *Review of a wide range of arguments, and consideration of solutions adopted elsewhere, suggests that there are no compelling grounds to abolish the WTB or replace it with an organisation of a fundamentally different nature. The case against radical change is particularly strong at the present time, in view of the WTB's involvement with the Objective One programme. It may be appropriate to consider more major changes in greater depth at the time of the next review.*

23. *The performance management system for the WTB consists mainly in the provision by the Welsh Assembly Government of strategic guidance in the remit letter, and the monitoring of performance against targets. However, the targets employed are – probably in common with all targets – imperfect guides to performance. The setting of effective targets, and the interpretation of outcomes, which requires an understanding of context, are specialised tasks. There are grounds for proposing a strengthening of institutional arrangements for carrying out these tasks.*

24. *A range of further options for the future work of the WTB were considered, and the results are reflected in the recommendations below.*

Recommendations

Rationale and functions

- i) *Over the period until the next review, the Wales Tourist Board should continue in existence, constituted broadly as at present. (pp76)*
- ii) *The WTB should, in future versions of its Corporate Plan, further elucidate the rationale for its choice of Strategic Objectives. A link should be made between the Strategic Objectives, the existence of market failures (which should be clearly distinguished from market outcomes) and evidence on the cost-effectiveness of remedies for such failures. (pp37)*
- iii) *Where WTB is required to address specific market failures as part of a time-limited programme (eg Objective 1), associated increases in WTB budgets should be separately identified, and time-limited. (pp37)*

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Effectiveness

- iv) *The Welsh Assembly Government should consider options for strengthening the WTB's performance management regime, including as one option the creation of dedicated specialist monitoring capacity within the Assembly. (pp81)*
- v) *WTB should produce an audited annual performance report. (pp70)*
- vi) *The Welsh Assembly Government should review the case for continuing with "Section 4" grants in the light of the range of non-sectoral assistance available to tourism businesses. (pp78)*
- vii) *The Welsh Assembly Government, WTB and/or other grant providing bodies should consider the scope for introducing within the grant programme a greater focus on major projects (or integrated clusters of smaller projects) located in areas where there is a general deficiency of economic activity. (pp79)*
- viii) *In the event that a sectorally-based investment support scheme for tourism is retained, the Welsh Assembly Government should consider further the case for establishing more formal links between the financial support schemes of the WTB and, the Welsh Assembly Government, and the WDA. This might include a pooled and jointly managed budget. (pp80)*
- ix) *WTB should seek to improve the measurement of additionality in the assessment of ROI (return on investment), and to include a full assessment of costs incurred. (pp60)*
- x) *The Welsh Assembly Government should monitor the relationship between ROIs (return on investment) for UK and overseas marketing, and considers setting targets for convergence. (pp60)*
- xi) *In the light of possible research on the relationship between tourist expenditure and value-added, the WTB should consider the scope for modifying the calculation of ROI (return on investment) to reflect the impact on value-added rather than expenditure. (pp60)*
- xii) *In future evaluation studies, displacement should be estimated both in total and disaggregated to show displacement from Objective One and other assisted areas, and from other UK countries. (pp64)*
- xiii) *The Welsh Assembly Government should consider the future role of the target for jobs safeguarded. (pp70)*
- xiv) *WTB, in partnership with the Welsh Assembly Government, should ensure that there is a full and independent evaluation of the effectiveness of the new arrangements for the provision of business advice to the tourist sector. This may be most effective if combined*

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with a review of the grading service. This evaluation should take place in the next three years. (pp77)

- xv) *WTB should ensure that it has in place arrangements to facilitate a full and independent evaluation of the Regional Tourism Partnerships. This evaluation should take place in the next three years. (pp82)*
- xvi) *The Welsh Assembly Government should consider further the case for and against seeking devolution of funding for the BTA, in the light of the emerging position in respect of marketing the “England brand”. (pp82)*
- xvii) *In appointing board members, the Welsh Assembly Government should continue to recognise the need for the presence of members with wide, and practical, experience of the tourist trade. (pp84)*
- xviii) *The Welsh Assembly Government should consider the option of seeking nominations for board membership from the Regional Tourism Partnerships. This would probably require an expanded board, and therefore changes to legislation. (pp84)*
- xix) *WTB should consider whether changes should be made to the arrangements for trade membership of the Regional Tourism Partnerships to ensure a broader regional balance. (pp84)*

Evidence base

- xx) *The Welsh Assembly Government should consider the scope for commissioning research to compare systematically across sectors the costs and benefits of interventions designed to stimulate economic development. (pp61)*
- xxi) *The Welsh Assembly Government should consider the scope for (a) extending the research base to better inform WTB decisions on the trade-offs between economic, environmental, social and cultural objectives, and (b) developing guidance on the balance to be struck by the WTB between such objectives, perhaps as part of the work for the forthcoming Wales Spatial Plan. (pp37)*
- xxii) *WTB should consider the scope for an expanded research and evaluation programme and should agree its research and evaluation programme with the Welsh Assembly Government as part of the corporate planning process. Welsh Assembly Government should be represented on the steering groups of evaluations with wider implications. (pp65)*
- xxiii) *Subject to the availability of resources, further research should be undertaken by the Welsh Assembly Government in partnership with the WTB (perhaps through the new Economic Research Unit) on the economic impact of tourism. This might take the form of the creation of tourism satellite accounts. (pp26)*

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- xxiv) *The Welsh Assembly Government and WTB should consider the scope for further research to refine estimates of net economic impact of WTB activities, particularly in terms of assessing displacement and crowding-out. Future estimates of economic impact should be expressed in terms of ranges, reflecting the inherent uncertainties in this area. (pp64)*
- xxv) *Where changes in methodology risk discontinuities in important time series data, data procurers should ensure that steps are taken to preserve information on trends, for example through the creation of link periods. (pp26)*
- xxvi) *WTB should consider research on the effectiveness of the grading system, particularly focusing on the value to tourists. (pp81)*
- xxvii) *The WTB should consider the scope for extending its research programme to investigate the overall impact of the WTB on the choice of visitors to come to Wales. (pp83)*
- xxviii) *The WTB should examine the scope for extending the use of research amongst existing overseas visitors to identify the opportunities for growing this market, and for undertaking research to inform the relative weight to be given to Wales and sub-Wales brands in the UK market. (pp83)*

Part 1: Introduction

1.1 Background to the Review

Context and Terms of Reference

1.1.1 The Quinquennial Review of the Wales Tourist Board (WTB) has been undertaken in the context of the Welsh Assembly Government's published Quinquennial Review Guidelines. The Guidelines set out the process for conducting such reviews. This includes self-assessment by the sponsored body, discussion with Members of the Board and senior managers, inviting views from major stakeholders, including staff and their trade unions, partners and customers.

1.1.2 Quinquennial Reviews are carried out in two stages. The coverage of the stages is described below. This interim report covers the first stage.

1.1.3 The specific Terms of Reference for the review set out the key questions which the Review had to address. (Issues common to all reviews were identified in the Guidelines but the Terms of Reference also took account of issues specific to the WTB.) The full Terms of Reference are included as Appendix 1.

1.1.4 The context for the Review is set by the Welsh Assembly Government's strategic plan, "A Plan for Wales 2001" and related documents, including the economic strategy "A Winning Wales", and the ERDF Single Programming Documents.

1.1.5 The key questions set out in the Terms of Reference covered three broad areas. These areas are reflected in the structure of this report, and are described below.

Functions

1.1.6 Part 1 of the Interim Report addresses questions related to the functions of the WTB, and in particular the following key question:

In the light of the statutory duties of the WTB, as set out in the Tourism Acts of 1969 and 1992, the objectives of the Welsh Assembly Government and models of good practice elsewhere in the UK or EU, is there a continuing need for all the functions of the WTB and, if so, is the current organisational framework for delivering those functions the most appropriate?

Strategic Effectiveness

1.1.7 Part 2 of the Interim Report considers the strategic effectiveness of the WTB, and addresses the following central question:

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Are there improvements which should be made to the way in which the WTB's functions are delivered, taking account of its statutory duties and the values and objectives of the Welsh Assembly Government, and the functioning of its relationship with the Welsh Assembly Government and other public bodies? This should take account of any independent studies, for example by the National Audit Office and the other inputs set out in the Quinquennial Review guidelines.

Corporate Governance Review

1.1.8 The second stage of the review concerns corporate governance. The results of this review will be set out in the Final Report. This will address the question:

Is the WTB managing its finances effectively and in accordance with the requirements of regularity, propriety and value-for-money? What progress has the WTB made in improving operational efficiency?

Methodology

1.1.9 The review was carried out by the Assembly's Finance Group under the guidance of a Steering Group chaired by Stephen Phillips, who heads the Group's Financial Planning Division. The Steering Group also included a representative of the WTB. The full membership of the Steering Group is listed at Appendix 2. The review officer was Jonathan Price, of the Assembly's Economic Advice Division. The Steering Group met 4 times between September 2001 and May 2002.

1.1.10 The beginning of the review was announced by Minister for Economic Development in September 2001. In accordance with normal practice, the announcement included an invitation to interested parties to submit comments. The review was the subject of a Welsh Assembly Government Press Release. The WTB was also asked to publicise the review and ask for comments. In addition, the Welsh Assembly Government wrote to a number of bodies with an interest in the WTBs functions, drawing attention to the reviews and seeking their views. Comments were requested by 18 January 2002, and a total of 42 responses were received. The review officer interviewed a number of the respondents in order to explore their views more fully.

1.1.11 The Interim Review comprised six main elements:

- A desk review of relevant written material, including WTB's enabling statute and remit letters, corporate plans, annual reports, and reviews of other organisations involved in promoting tourism across the UK.
- A series of meetings with WTB, Assembly officials, and a range of other organisations (including Regional Tourism Companies, local Tourist Associations, local authorities, the WDA, and UK tourist organisations)

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and their sponsor departments) in order to gain a fuller understanding of the WTBs functions and relationships.

- A telephone survey of businesses that had experience of dealing with the WTB.
- Two focus group meetings with randomly selected WTB staff.
- Public consultation as described above.
- Analysis and review of evidence, including the preparation of this report.

Approach to the Review

1.1.12 The reviewer has sought to concentrate on major and strategic issues. More detailed matters have been considered where they have been raised during the consultation process or analysis.

1.1.13 Many of the issues discussed involve a variety of considerations, and some raise issues of wider economic policy. In such cases, the reviewer has tried to set out the arguments fully, and indicate where the weight of evidence may lie. But when a large measure of judgement is needed, and wider issues are concerned, it would be inappropriate for the reviewer to reach firm recommendations. In such circumstances it is for the Welsh Assembly Government to determine the way forward.

1.1.14 The reviewer wishes to record his thanks to the WTB for the open and constructive way it has approached the review. He also wishes to thank all consultees for their efforts.

Terminology

1.1.15 There is a perennial risk of confusion between the WTB and its board, since each is frequently referred to as “the board. In this report, the use of the term “the board” is reserved for the group of six non-executive board members (including the chairman).

Costs of the Review

1.1.16 The estimated costs of the Interim Review (which take account of travel and subsistence) were £20,000. This does not take account of any estimate of the costs incurred by WTB staff in connection with the Review, or the costs of any Assembly officials other than the review officer and assistance provided within Economic Advice Division.

1.1.17 In summary, the Quinquennial Review of the Wales Tourist Board (WTB) has been undertaken in accordance with the Welsh Assembly Government’s published guidelines for conducting such reviews. This report covers stage one of the review, including issues related to the functions and strategic effectiveness of the WTB. An extensive programme of consultation has been undertaken, and the results of this consultation have been reviewed in the light of desk research and analysis.

Part 1: Introduction

1.2: Structure and Functions of the Wales Tourist Board

Legal Basis, Purposes and Statutory Functions

1.2.1 The Wales Tourist Board, along with the British Tourist Authority, English Tourist Board (now the English Tourism Council) and the Scottish Tourist Board (now VisitScotland), was set up under the Development of Tourism Act 1969. Under this Act, WTB's principal functions are:

- to encourage people to visit Wales and people living in Wales to take their holidays there;
- to encourage the provision and improvement of tourist amenities in Wales.

1.2.2 The WTB also has the following statutory functions and powers:

- to advise Ministers and other public bodies on tourism matters;
- to promote or undertake publicity in any form;
- to provide advisory and information services;
- to promote and undertake research;
- to contribute to or reimburse expenditure incurred by any other person or organisation in carrying on any of the above activities;
- to provide committees to advise the board on the performance of its functions;
- to give financial assistance by way of grant, loan or equity (or a combination of these methods of funding) to provide or improve tourist amenities and facilities;
- following an Order in Council, to administer a scheme for the registration of tourist accommodation;
- following an Order in Council, to administer a scheme for the display of accommodation prices.

1.2.3 The WTB currently exercises all of these powers and functions, apart from the last two on the list. Note that the final function has not been devolved.

1.2.4 The WTB is currently engaged on process of consultation about whether to establish a statutory registration scheme for tourist accommodation. Currently, the WTB operates a voluntary quality assurance (grading) scheme.

1.2.5 The 1969 Act debarred WTB from marketing Wales overseas. That responsibility was vested in the British Tourist Authority (BTA), which was charged with marketing the whole of Britain overseas. However, under the Tourism (Overseas Promotion) (Wales) Act 1992, the WTB is now able to undertake overseas marketing activity to supplement the work of the BTA.

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1.2.6 Powers of the Welsh Assembly Government to Review and Implement Changes.

1.2.7 Section 28 of the Government of Wales Act 1998 provides the Welsh Assembly Government with the power to reform certain Welsh public bodies. Under section 28, the Assembly may, by order (exercisable by statutory instrument), transfer the statutory functions of certain Welsh public bodies to certain other Welsh public bodies. Schedule 4 to the 1998 Act lists those Welsh public bodies, which are subject to such reform by the Welsh Assembly Government. WTB is listed in Part I of Schedule 4 to the 1998 Act. By way of example, one or more of the statutory functions of (inter alia) the WIDAB, the Welsh Development Agency or the Welsh Language Board (bodies also listed in Part I of Schedule 4) could be transferred, by order, to WTB. Equally, WTB's statutory function could be transferred to any of those bodies or to the Assembly itself.

Role of the Welsh Assembly Government

1.2.8 The Welsh Assembly Government is responsible for setting the policy priorities and guidelines for WTB, together with its annual budget. The relationship is set out in the annual Remit Letter which is issued by the Minister for Economic Development. The Remit Letter also sets performance targets for the WTB, and provides details of the resources to be made available by the Welsh Assembly Government.

1.2.9 The WTB produces a Corporate Plan (covering a rolling three-year period) and, for the first time in 2002-03, annual Business Plans. These are submitted to the Welsh Assembly Government. The Assembly's Economic Development Committee considers and comments on the Corporate Plan.

1.2.10 The relationship between the Welsh Assembly Government and the WTB is determined only in a general way by statute, and the performance management framework has developed through practice and agreement.

Role of the Appointed Board

1.2.11 As an Assembly Sponsored Public Body, WTB is a body corporate supervised by a chairman and board who have collective responsibility for its overall control and management. The Chairman and all six board members are appointed by the Welsh Assembly Government. The board is required to ensure that WTB's activities are consistent with the 1969 and 1992 Acts and with those policy priorities set by the Welsh Assembly Government. They are also expected to approve strategy, provide policy direction to the Board's executive, allocate resources, set targets, and ensure that arrangements are in place to promote the Board's effective financial management.

Aims and Objectives Set by the Welsh Assembly Government

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1.2.12 The latest Remit Letter is that for 2002-03. This provides details of the Assembly's budget allocation to the WTB for 2002-03, together with indicative allocations for subsequent years (shown, along with other funding, in Table 1).

Table 1: WTB Funding Summary

	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000
1. Assembly Core Funding				
Programme Expenditure	12,236	14,586	13,736	13,736
Capital Expenditure	3,150	3,150	3,150	3,150
Running Costs	4,700	4,912	4,700	4,700
<u>Total Grant in Aid</u>	20,086	22,648	21,586	21,586
2. EU Funding	2,655	4,773	6,390	4,849
3. Match Funding – Pathway To Prosperity	2,234	6,934	4,932	1,200
4. Rural Recovery Fund*	4,080	1,270	-	-
5. Commercial Revenue	1,281	1,413	1,289	1,289
8. Total Funding	30,336	37,038	34,197	28,924

Note:

Wales Tourist Board are also due to receive a proportion of a further £2 million under the Rural Recovery Plan (shared with the Countryside Council) in 2002-03, with a further £3 million connected to this programme in 2003-04. Also, a further £800,000 became available in the latter part of 2001-02 to complete the ReAct scheme.

1.2.13 The Remit Letter requires the WTB to consult with other key economic agencies, and relevant Divisions within the Welsh Assembly Government, in drawing up its corporate and operational plans, and to work strategically within the framework set by "Plan for Wales 2001" and "A Winning Wales". In particular, the WTB's strategy is expected to reflect the Welsh Assembly Government's three key themes of sustainable development, social inclusion and equality of opportunity. The WTB is also asked to take account of the principles set out in the Welsh Assembly Government's Local Government Partnership Scheme and the need to work within the agreed model of balanced representation from the public sector, social partners and voluntary sector.

1.2.14 The Remit Letter for 2002-03 sets out the following specific priorities for the WTB:

- Strategic:
 - Implementing Wales' national tourism strategy *Achieving Our Potential*.
 - Promoting Information and Communication Technologies.
 - Ensuring that European Structural Funds are used to maximum effect.
 - Supporting tourism development in Rural Areas.

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- Supporting and investing in sustainable tourism and recreation and promotion of Green Tourism.
- Promoting Welsh culture, heritage and environment as key strengths.
- Contributing towards the development of an international branding of Wales.

- Operational:
 - Working with other bodies to help develop an 'Events Strategy' to support and attract major events to Wales.
 - Fully exploiting the opportunities that the Ryder Cup will present, both in the UK and overseas. I also expect the Board to continue its role in delivering the commitments made in the Bid Document.
 - Playing an effective part in implementing the Rural Recovery Plan and continue its involvement with the work of the Wales Rural Partnership.
 - Continuing work in developing and supporting tourism projects under EU programmes by maximising Objective 1 and utilising match funding resources where necessary.
 - Producing, with Cymru'n Crew, a framework Cultural Tourism Strategy to help promote opportunities for visitors to experience the cultural and environmental assets of Wales.
 - Working closely with the BTA in assessing and monitoring Wales' overseas markets following the FM outbreak and the terrorist attacks in the USA. The Board should review its planned marketing campaigns both at home and overseas in the light of its market assessment;
 - Formally establishing four Regional Tourism Partnerships which will have responsibility for implementing regional tourism strategies in their areas. In doing this effective working partnerships should be established with the support of local authorities and the local tourism industry.
 - Pressing on with the final stages of implementing the Destination Management System and promote its use within the tourism industry.
 - Working with ELWa and TTW and other training bodies to improve training, professionalism and the career structure within the tourism industry.
 - Working with the Welsh Assembly Government on re-notifying its Section 4 Capital Grant Scheme to the EU Commission.
 - Working with the Business Support network in Wales to provide specialist business support for the tourism industry

1.2.15 Specific targets set in the Remit Letter for 2002-03 are set out in Table 2.

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Area	Target
Tourism Spend Contribute to an annual average increase in tourism expenditure of at least	6%
Capital Investment Leverage (WTB: total project cost) Private sector investment Total investment generated Number of jobs created Number of jobs safeguarded	1:5 £15.5m £28m 400 100
Marketing UK marketing return on investment (return or conversion: WTB expenditure) Overseas priority markets (return or conversion: WTB expenditure)	30:1 12:1
Promotion of Destination Management System Businesses using DMS (maintaining data) Businesses using DMS for e-commerce/bookings	5,000 1,000
Star Quality Grading Scheme Proportion of accommodation businesses graded at 3 stars or above to increase from 74%	76%

1.2.16 In addition to these targets which relate to core funding from the Welsh Assembly Government (including match funding), the WTB also has specific Objective 1 targets.

Structure

1.2.17 WTB's Chairman and six part-time Board Members are appointed by the Welsh Assembly Government's First Minister for terms of three years. The Chairman is also a member of the Board of the BTA. The Board is responsible for appointing a Chief Executive and support staff. WTB's current establishment limit is 117.5 posts, most of whom work at the Cardiff Headquarters, WTB's organisation is sub-divided into five internal departments – Marketing, Development, Strategy and Policy, Communications and Finance and Administration.

1.2.18 In response to changing circumstance WTB has evolved its corporate structures and links to other bodies. A key change which has been implemented recently is the establishment of four Regional Tourism Partnership. This change is intended to help WTB allocate more funding to the regional level. This is in turn intended to support the implementation of the regional tourism strategies which have been put in place by the Regional Economic Fora.

WTB Objectives and Activities

1.2.19 Within the guidelines set by the Welsh Assembly Government, the WTB determines its own objective and activities.

1.2.20 WTB sees its principal role as being to provide leadership and strategic direction to a fragmented industry. Consequently, in consultation with the tourism industry, WTB has prepared a succession of medium-term strategies for tourism in Wales which seek to identify an effective integrated response to the many strategic challenges which are likely to confront tourism in Wales. The present strategy, *Achieving Our Potential*, was launched in April 2000 and covers the strategic period 2000-2010.

1.2.21 WTB's mission statement as defined in its Corporate Plan is '*to improve the economic and social prosperity of Wales through the effective marketing and development of tourism.*'

1.2.22 WTB's four strategic objectives are drawn from its mission statement and closely reflect (but do not duplicate) those contained in *Achieving Our Potential*. These strategic objectives cover the four themes of Promotion, Product Development, Profitability and Partnership:-

1.2.23 Objective 1: To increase tourism expenditure all year round by marketing Wales effectively and expertly.

WTB rationale

1.2.24 Tourism demand in Wales is highly seasonal, 60% of all holiday spend occurs in the three months of July, August and September. The WTB believes that an extension to the tourism season would provide strong and long lasting economic and social benefits for Wales. More full-time job opportunities would improve the status of employment in the industry, stimulate the need for more comprehensive training in essential skills and strengthen career structures. Business viability in the industry would be improved and an over dependency on a gradually declining peak season long holiday market would be reduced.

Activities

1.2.25 WTB has a key role in marketing Wales as an attractive and distinctive tourism destination in the UK and overseas. WTB uses its specialist skills and market knowledge to provide a strategic marketing framework for partnership activity with the British Tourist Authority (BTA), local authorities and the tourism industry.

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1.2.26 WTB seeks to generate bookings from potential customers through direct marketing, exhibitions and other campaigns. WTB also generates positive media coverage about Wales by stimulating travel stories, by facilitating media visits to Wales and by encouraging tour operators to feature Wales in their programmes.

1.2.27 Objective 2: To improve visitor satisfaction by encouraging improved quality and standards in tourism facilities.

WTB Rationale

1.2.28 WTB believes that improving quality at all levels of the industry is a key to success. Every industry must adapt to meet the needs of its existing and potential customers. Innovative business practice and investment based on a sound knowledge of market trends, an understanding of market needs and an awareness of new opportunities will be fundamental to securing future success for the tourism industry in Wales. Tourism businesses in Wales, however, are often financially marginal because of their small scale, relative remoteness from key markets and seasonality of income. There are, therefore, real limitations on their ability to invest regularly with confidence.

Activities

1.2.29 The provision of targeted financial assistance from WTB seeks to hasten product investment to meet current and forecast consumer needs and improve Wales' competitive standing. This assistance is available in all parts of Wales.

1.2.30 The WTB sets quality standards for the tourist industry in Wales to improve competitiveness and aid consumer choice. A service is provided under which accommodation is graded in a consistent and reliable manner.

1.2.31 Objective 3: To encourage higher levels of competitiveness, service delivery, innovation and profitability in the industry.

WTB Rationale

1.2.32 WTB believes that the tourism industry must seek to overcome competitive threats by raising its sights beyond parochial considerations and search for innovative ways to improve profitability. "Working with Winners" – those businesses who show commitment to improving their competitive position by achieving higher standards of quality, service and value for money – is an approach advocated in *Achieving Our Potential* to set higher standards for the industry. WTB believes that investment in improved facilities is necessary but in itself will not be enough. It is equally important to invest in people and to ensure high levels of service, welcome and professionalism. Developing the necessary skill levels and attitudes throughout the industry can only be achieved through collaborative action.

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Activities

1.2.33 WTB works in partnership with other organisations, such as local authorities and the WDA, to provide specialist business support services to strengthen viability and profitability in individual businesses. The WTB's grading service has recently been developed to include the provision of business advice, and brought back in-house.

1.2.34 Objective 4: To encourage the sustainable growth of tourism through effective partnership working.

WTB Rationale

1.2.35 Tourism is a fragmented industry and the WTB believes it is essential for people, organisations and businesses to establish effective working relationships to get things done and to make things happen. WTB seeks to work in partnership to deliver a range of activities in support of its objectives. The principle of sustainability lies at the core of *Achieving Our Potential*. The scale, pace and character of development must be carefully controlled to safeguard Wales' unique environmental, historical and cultural assets.

Activities

1.2.36 WTB undertakes research to evaluate performance, monitor market trends and help the industry plan accordingly. It also provides advice and information to Government on the performance of the industry and on tourism matters affecting Wales.

1.2.37 WTB coordinates standards for the Tourist Information Centre network in Wales (the network itself being funded and managed by a variety of bodies, including local authorities).

1.2.38 WTB is in the process of establishing new Regional Tourism Partnerships, including representation from the trade and local authorities, to take forward the development of regional tourism strategies.

Resource Allocation

1.2.39 The allocation of resources to main areas of activity within the WTB is set out in Table 3.

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Table 3: Resource Allocation

Expenditure summary £000s	2001/02	2002/03	2003/04	2004/05
Development Division				
Programme expenditure	1,678	2,444	2,310	2,255
Capital expenditure	4,962	8,628	6,759	5,357
Total expenditure	6,640	11,072	9,069	7,612
Marketing Division				
DMS	1,633	1,519	988	906
Marketing	14,545	14,425	13,790	9,625
<i>of which:</i>				
- UK	9,160	n/a	n/a	n/a
- Overseas	5,385	n/a	n/a	n/a
Total expenditure	16,178	15,944	14,788	10,531
Regional Development Fund	2,000	2,500	3,000	3,500
Production Services	709	709	667	651
Communications	500	630	565	538
Strategy	380	626	561	535
Running costs	4,700	5,557	5,557	5,557
TOTAL EXPENDITURE	30,336	37,038	34,197	28,924

Note:

Includes structural funds.

Includes increase in running costs under discussion at time of writing.

Previous Reviews

1.2.40 The last review of the WTB was carried out in 1992-93. At that time, such reviews were termed "Financial Management and Policy Reviews". The broad conclusion of the review was that there existed a coherent rationale for the board's functions, and that they should continue to be discharged by the WTB itself. Recommendations were categorised as "major" or "minor". (The full set of recommendations is included as Appendix 3.)

1.2.41 A large number of even the major recommendations were quite specific, and were aimed at improving the effectiveness of the relationship with the Welsh Office and other government agencies. A number of recommendations focused, in particular, on strengthening the planning and monitoring cycle. Recommendations were also aimed at increasing, so far as possible, private sector involvement in the provision of WTB services, and improving the provision of information on the economic context.

1.2.42 Many of the recommendations simply invited the board itself to consider issues, without specifying a proposed course of action.

1.2.43 In general, it appears that, where specific actions were recommended, these have been carried out, although in a number of areas the context within which the WTB operates has changed. For example, the Remit Letter now

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fulfils some of the functions proposed for the Guidelines recommended in connection with the Board's marketing programme.

1.2.44 In summary, WTB is an Assembly Sponsored Public Body. The board and chairman are appointed by the Assembly's First Minister. The Welsh Assembly Government also provides the main budgetary support. Principal guidance is provided in the annual Remit Letter. Within the guidelines set by the Remit Letter, the WTB determines its own priorities. The main recommendations of the preceding review, carried out in 1992-93, have been effected.

Part 2: Functions

2.1: Socio-economic context

Introduction

2.1.1 "Tourism" is a concept which may at first appear straightforward, but which is in fact hard to define. In terms of national accounts, tourism is a category of demand, not an industry. That is to say, it represents one of the ways in which consumers (and, in respect of business tourism, enterprises) spend their money, rather than an identifiable set of businesses¹.

2.1.2 The boundaries between tourism and other categories of spending are not clear-cut. On the one hand, consumer spending forms a continuum, and the drawing of a boundary based on some criteria such as the distance from home at which that spending takes place, and/or, the duration of the period of absence from home, is essentially arbitrary. On the other hand, businesses which are often thought of as belonging to the tourist sector, such as hotels, will often derive quite a high proportion of their income from local residents.

2.1.3 Furthermore, many of the recipients of tourist expenditure will be in sectors not normally thought of as part of the tourist "industry". These will include both the direct recipients of spending, such as general retailers and garages, and the indirect recipients who supply "intermediate" goods. This latter group could of course include businesses of almost any type.

2.1.4 It follows from all this that any analysis of nature and impact of the industry will require the drawing of boundaries that are in many cases in part a matter of judgement.

2.1.5 Despite these complications, this report will follow convention, and continue to refer to the "tourist industry".

Size and Nature of the Tourist Industry in Wales.

2.1.6 It should be noted that the size of a sector or category of demand does not *by itself* provide a justification for government intervention or support. However, information on the scale and distribution of impacts forms an important context for making decisions on the targeting of intervention justified on other grounds, and may in particular provide support to the case for intervention on social grounds.

2.1.7 The UK market is by far the biggest source of overnight tourism business for Wales and in 1998 generated 92% of visits and 86% of tourism

¹ Formal definitions of the terms "tourism industry" and "tourist" are provided in the OECD document "Measuring the Role of Tourism in OECD Economies: OECD Manual on Tourism Satellite Accounts".

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spend. Almost 75 percentage points of overnight spending comes from England, with 15 percentage points from within Wales itself.

2.1.8 The total value of spending from the UK overnight market in 1999 was estimated at £1,135 million. 79% of spending was incurred on holiday visits, 9% on visits to friends and relatives, 8% on business, and 4% on other.

2.1.9 The total value of spending from overseas tourists in the same year was £269 million. Taken together with the figure for UK visitors, this gives a total “overnight” holiday spend of some £1,400 million in 1999.

2.1.10 The standard method for measuring the economic importance of an industry or category or expenditure is in terms of its contribution to Gross Domestic Product (GDP)².

2.1.11 The figure for total overnight holiday spending represents just over 4% of GDP. However, it should be noted that, whilst it is standard practice to quote a percentage calculated on this basis for purposes of comparison with other countries, it is not a correct method for estimating the contribution of Welsh tourism to Welsh GDP.

2.1.12 This is because GDP is a measure of value-added, not spending. The point can be most easily expressed by an extreme example. If a tourist purchases petrol from a garage in Wales, only a small proportion of the total spent will be retained to generate income in Wales.³

2.1.13 In order to estimate the contribution of tourist spending to value-added in Wales, special analysis is required. The analysis required (often referred to as a “Tourism Satellite Account”) is complex and requires new sources of data in order to construct tourism-relevant input-output tables. The WTB has commissioned research in this area, and is to be commended for its initiative in this respect⁴.

2.1.14 In advance of such a full analysis, it is not possible to produce definitive figures for overnight tourism’s contribution to Welsh GDP. However, it is possible to make credible estimates, based on existing input-output tables, research to date in Wales, and results obtained in Scotland and Ireland. It seems on this basis that the contribution of Welsh overnight tourism to Welsh GDP in 1999 is unlikely to have exceeded about 2.5%⁵. There is, however, clearly an urgent need for further research in this area.

2.1.15 The picture is complicated by the change to a new method of collecting data on UK visitors. The approach now is based upon a telephone survey, rather than face-to-face interviews. The result has been a sharp

² The sum of all (priced) output produced within an area, before allowing for depreciation.

³ A related point is that Welsh GDP is expressed at basic prices, whilst tourism spending is expressed at market prices.

⁴ The Tourism Satellite Account under development for the WTB adhere to OECD conventions and definitions.

⁵ Note this estimate includes “type 1” multipliers.

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increase in the estimated expenditure on tourism across the UK. In Wales, UK tourism spending is estimated at £1,645 million for 2000 (compared with the estimate for 1999 on the old basis of £1,135 million, noted above). Tourist boards across the UK are investigating the reasons for the discontinuity in the series, but there is nothing so far to indicate that the new method is at fault. One important lesson may be the inherent imprecision of all estimates in this area. This has implications for performance management, and in particular, the setting of targets for the WTB. These issues will be explored later.

2.1.16 On the new basis, the total spending of overnight visitors to Wales in 2000 was of the order of £1,921 million. This would represent some 6.5% of GDP, and would lead to an estimate, on a corrected, value-added basis, of perhaps 4% of GDP.

2.1.17 An additional source of income is derived from tourism day visits to and within Wales. "Tourism day visits" are defined as round trips made from home which last three hours or more, are made for leisure purposes, and are not taken on a regular basis. Virtually all tourism day visits take place within the country of origin.

2.1.18 The main activities undertaken on such visits in Wales are to eat /drink out (17% of visits), visit friends and relatives (16%), walk/ramble (16%), go shopping (11%), play sport or other activity (10%), entertainment (7%). (Note: figures are for 1998.)

2.1.19 Total expenditure on such trips in Wales for 1998 was estimated at £900 million, of which £700 million took place in towns, £100 million at the seaside, and £200 million in the countryside

2.1.20 It is a matter of judgement as to whether, in assessing the scale of the tourist industry, the calculation should include tourism day visits. The central question is the purpose for which the numbers are being prepared. However, in view of the general characteristics of the tourism day visits, as described above, there seems a strong case for quoting results for both a core measure, excluding such visits, and a broader measure including them. This would lead to an estimated contribution to GDP for the core measure of around 2.5%, and around 4% for the wider measure, on the old basis for measuring UK tourism, or 4% and 5% on the new basis.⁶

2.1.21 It should be noted that calculations carried out employing the methodology described above would also result in adjustments in the estimates made for the contribution of tourism to GDP in the rest of the UK. Indeed, the Scottish Executive has recently published provisional estimates calculated along these lines, indicating that the contribution of tourism to Scottish GDP is around 4%.⁷

⁶ It might be noted that if the adjustments described above were not made, and the contribution of other industries was calculated on the same basis, the total contribution of industries to Welsh GDP would sum to well over 200%.

⁷ *Estimating the Economic Impact of Tourism in Scotland*, published in *Scottish Economic Statistics*, 2002.

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2.1.22 Furthermore, some commentators have argued that non-optional business travel should also be excluded from the definition of tourism relevant to the work of a national tourist board. An adjustment to this effect would be relatively small – probably around £150m in expenditure terms, around 0.25% of GDP. A similar argument might be advanced in respect of visits to families and friends.

2.1.23 It should also be noted that Wales will benefit from tourist expenditure in the rest of the UK, through supply chain effects. In view of the close integration of the economy in Wales and England, such benefits could be significant. However, existing data does not permit a reliable quantitative assessment.

2.1.24 For the reasons set out above, it is not correct to estimate tourism’s contribution to GDP on the basis of aggregate tourist expenditure. But the approach is probably adequate to illustrate longer-term *trends* in tourism’s contribution to the economy.

2.1.25 The picture emerging from official statistics is given table 4. Note that data is incomplete for the 1970s; that there have been changes in statistical methodology; and that the use of averages obscures some information. However, the overall picture is quite clear. Tourism’s contribution in Wales has declined over the long run, with relatively small increases in overseas tourism failing to compensate for the larger declines in domestic spending (mainly a result of a UK-wide decline in the traditional seaside summer holiday). There are, however, indications that the contribution stabilised in the 1990s.

Table 4: Overnight Holiday Spending in Wales

	Relative to GDP (%)		
	Total Spend	UK Spend	Overseas Spend
1970s	5.8	5.6	0.6
1980s	5.0	4.3	0.7
1990s	4.1	3.4	0.7

Note:

Incomplete data for 1970s.

2.1.26 Of course, past demand is a highly imperfect guide to the pattern of future demand. But these figures should give rise to some caution in predicting growth.

2.1.27 *In summary, the value of Welsh tourism to the Welsh economy can be measured in terms of the contribution made to GDP. The estimated*

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contribution lies between 4% and 5% on the new measure of UK tourist expenditure, and 2.5% and 4% on the older measure, both including major multiplier effects. The main influence on the location in these ranges of a point estimate is the assessment made of the nature of tourism day visits. In the reviewer's opinion, an estimate most relevant to the work of the WTB would be at the lower end.

2.1.28 Over the longer term, the contribution of tourism to the economy in Wales has declined since the 1970s, with small proportionate increases in overseas spending failing to compensate for larger reductions in domestic spending. The position may have stabilised in the 1990s.

Recommendation: *Subject to the availability of resources, further research should be undertaken by the Welsh Assembly Government in partnership with the WTB (perhaps through the new Economic Research Unit) on the economic impact of tourism. This might take the form of the creation of tourism satellite accounts.*

Recommendation: *Where changes in methodology risk discontinuities in important time series data, data procurers should ensure that steps are taken to preserve information on trends, for example through the creation of link periods.*

Employment

2.1.29 Determining the numbers employed as a result of tourist expenditure is not straightforward. The ONS produces estimates of employees employed in so-called "Tourism-Related Industries". (Such industries include hotels, restaurants, and a range of leisure-related activities.) However, it is clear that, on the one hand, such industries generate much of their business from residents rather than tourists, and, on the other hand, that tourism spending supports many other activities. Furthermore, the official statistics exclude self-employment, which is likely to be important in the sector. For all these reasons, there is scope for further developing the statistics on employment in the sector.

2.1.30 Nevertheless, the figures, shown in Table 5, are useful in indicating the relative importance of tourism in different local authority areas.

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Table 5: Employment in Tourism-Related Industries by Local Authority, September 1998

	Full time	Part time	All	FTEs	Percentage
	000s	000s	000s	000s	of all FTEs %
Conwy	2.8	2.4	5.2	4.0	15.7
Gwynedd	2.9	2.4	5.3	4.1	11.8
Pembrokeshire	2.0	1.5	3.5	2.8	11.5
Ceredigion	1.1	1.0	2.1	1.6	9.5
Denbighshire	1.7	1.3	3.0	2.4	9.2
Powys	2.0	1.8	3.8	2.9	8.8
Isle of Anglesey	0.7	0.8	1.5	1.1	8.5
Monmouthshire	1.1	1.7	2.8	2.0	8.3
The Vale of Glamorgan	1.6	1.5	3.1	2.4	7.1
Swansea	3.2	2.8	6.0	4.6	6.7
Carmarthenshire	1.7	1.6	3.2	2.5	6.7
Bridgend	1.7	1.5	3.2	2.5	5.9
Cardiff	5.3	4.5	9.8	7.6	5.7
Merthyr Tydfil	0.5	0.4	0.9	0.7	5.7
Flintshire	1.8	1.6	3.4	2.6	5.1
Wrexham	1.4	1.2	2.6	2.0	4.6
Newport	1.8	1.6	3.4	2.6	4.5
Caerphilly	1.0	1.1	2.2	1.6	4.2
Neath Port Talbot	1.0	0.8	1.8	1.4	3.9
Rhondda, Cynon, Taff	1.6	1.6	3.3	2.4	3.8
Torfaen	0.7	0.7	1.3	1.1	3.7
Blaenau Gwent	0.4	0.4	0.8	0.6	3.6
Wales	38.0	34.1	72.1	55.1	6.5

Source:

Digest of Local Areas Statistics 2001, from Annual Employers Survey, and unpublished estimates

Note:

Excludes self-employment

FTEs calculated on the basis of one part-time job equalling one-half of a full-time job.

2.1.31 Employment in tourism-related industries may also be useful for indicating longer-term trends in employment in the sector. Since 1981, the total number of employees has risen from around 57,000 to the figure of 72,000 shown above. However, employment peaked in 1991 at 79,000.

2.1.32 A Wales-wide estimate of employment in tourism-related industries, but including self-employment, is available from the Labour Force Survey. Over the four quarters December 2000 to November 2001, such industries

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accounted for just under 90,000 jobs, or about 7% of total employment in Wales.

2.1.33 In view of the limitations of the official figures, the WTB has regularly commissioned independent research into tourism employment. The most recent research, conducted by DTZ Pineda (April 1998) estimated that in September 1995, some 80,600 workers in Wales were directly dependent upon tourism *and leisure* for their employment to some extent.

2.1.34 An alternative approach, which could provide a reasonable, but broad-brush, estimate, is to combine the estimate for GDP attributable to tourist expenditure with an estimate of GDP per worker generated by such expenditure. Table 6, which presents certain characteristics of employment in tourism-related industries, suggests that GDP/head in such industries is a little over half that for *All Industries*. However, tourism also generates value-added in non-tourism-related industries.

2.1.35 It is assumed here, but for illustrative purposes only, that 50% of the value-added due to tourism occurs in tourism-related industries, and 50% in other industries. It is further assumed that in these other industries, GDP/head is at the average for *All Industries*. If, again purely for illustrative purposes, we took the contribution of tourism to GDP as 4%, we would obtain an estimate of around 75,000 jobs (including both full and part time posts), about 6% of the total⁸.

2.1.36 Obtaining more refined estimates is difficult in advance of the further research recommended above.

2.1.37 Other features of tourism-related employment, as outlined in Table 6 are also worth noting. *On average*, such jobs tend have low wages and employ people with below average skill levels. It should be noted, however, that these estimates suffer from the general limitations shared by statistics in this area, and should not be regarded as precise.

Table 6: Tourism Employment Characteristics, 2000

	Tourism-related industries	All industries
Average weekly wages, GB (£)*	less than £300	£420
GDP/job, hotels restaurants etc, Wales (£)**	£13,000	£24,000
Highest qualifications, Wales (%)		
- Higher degree/NVQ5	1	5
- Other degree/NVQ4	16	23
- 2+ A levels/NVQ3	22	18
- 5+ GCSEs/NVQ2	25	23

⁸ Note that the total for full and part time jobs is higher than that for FTEs. This explains the discrepancy in the percentage figures quoted in this section.

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- lower qualifications/NVQ1	20	19
- No qualifications	16	12

Source:

New Earnings Survey and unpublished estimates.

Notes:

Figures for average wages are not available separately for Wales.

* Figure for tourist related industries is an estimate based on the average of the figures for SIC classes, 551 (hotels), 553 (restaurants), 554 (bars), 633 (tour operators and travel agents), 925 (libraries, museums and other cultural activities, and 927 (other recreational activities). Figures for other tourist related activities are not available.

** Unpublished estimates for SIC section H (Class 55 - Hotels and Restaurants). Figures for GB show a similar gap.

2.1.38 A further notable feature of research commissioned by WTB from DTZ Pidea was that it appeared to confirm the widespread impression that the tourism industry in Wales has a high concentration of small establishments, many of which have less than 10 employees. According to DTZ Pidea, this sector represents a larger proportion (85%) than for the tourist industry in Britain (74%) and for the Welsh economy as a whole (75%).

2.1.39 However, the picture painted by current statistics drawn from the Inter-Departmental Business Register (IDBR) - see Table 7 - is less clear-cut. Tourism-related industries have a lower proportion of large local units, but also fewer very small units.⁹

Table 7: Local Units in Wales, 2002

Employment size band	Tourism-related industries		All other industries	
	Number of local units	Percentage of total	Number of local units	Percentage of total
<=10	2,369	66.7	30,692	71.1
11-20	911	18.6	5,642	13.1
21-50	519	10.6	4,105	9.5
51-75	110	2.2	880	2.0
76-100	50	1.0	508	1.2
101-250	32	0.7	855	2.0
>250	9	0.2	457	1.1

Source:

Inter-Departmental Business Register

Note:

A local unit is an individual business location, irrespective of ownership. Tourism-related industries here exclude betting shops.

2.1.40 Data on self-employment is broadly comparable with that from the IDBR. Taking the average of the four quarters December 2000 to November 2001, the percentage of total Labour Force Survey employment accounted for

⁹ It may be that the picture is distorted by the focus on *units* rather than *firms*. However, available data on firms is also potentially misleading as it excludes businesses with their head offices outside Wales.

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by the self employed in Wales was 9.6% for tourism-related industries (excluding betting shops), and 11.9% for all other industries.

2.1.41 The safest conclusion would appear to be that there may some evidence of tourism-related industries being more fragmented than average, but that the difference is not particularly marked. It might be expected, of course, that fragmentation is a particular issue within certain sectors of the tourism industry.

Regional Distribution

2.1.42 Table 5, as already discussed, provides information on the regional distribution of employee jobs in tourism-related industries. But, again as previously noted, such jobs are poorly related to actual tourist spending.

2.1.43 Table 8 shows the regional distribution of tourist spending, obtained from the UK Travel Survey. Note that tourism spending is greater than the value-added locally as a result of such spending – and perhaps much greater. It is, however, not possible to produce local estimates of value-added. Note also that the figures used are based on the old methodology for collecting data on tourist expenditure. This permits the calculation of more robust three-year averages. Figures based on the new methodology, currently only available for the year 2000, would be rather higher.

Table 8: Expenditure on Overnight Tourism

	Overnight Tourism Spending 1997-99 average (£m)		Overnight Tourism Spending 1997-99 average (£m)
Anglesey	63	Monmouthshire	38
Blaenau Gwent	3	Neath Port Talbot	11
Bridgend	35	Newport	32
Caerphilly	8	Pembrokeshire	199
Cardiff	114	Powys	82
Carmarthenshire	47	Rhondda Cynnon Taff	14
Ceredigion	83	Swansea	86
Conwy	145	Torfaen	4
Denbighshire	108	Vale of Glamorgan	10
Flintshire	19	Wrexham	13
Gwynedd	220	Wales	1338
Merthyr Tydfil	4		

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2.1.44 Table 9 re-presents information on tourist spending for the more rural local authority areas, and also includes an estimate of the total value of agricultural output over the same period.

2.1.45 Two important caveats must be borne in mind when reading this table. First, spending on tourism and agriculture will have different implications for the degree of value-added that occurs locally, and hence for employment. It is not currently possible to estimate reliably the differential effects. Second, agricultural output has been allocated to local authority area pro-rata to agricultural employment. This is a crude approximation. For these reasons, the figures in the table should be regarded as illustrative, and have been rounded to the nearest £5 million to avoid any impression of precision.

Table 9: Expenditure on All Tourism and on Agriculture:

	All Tourism Spending 1997-99 average (£m)	Agriculture gross output 1997-99 average (£m)
Anglesey	80	45
Carmarthenshire	60	165
Ceredigion	110	110
Conwy	190	50
Denbighshire	140	45
Gwynedd	285	100
Monmouthshire	50	60
Pembrokeshire	260	120
Powys	105	240
“Rural Wales”	1280	935

Source:

WTB and Agriculture in the UK

Notes:

All tourism spending includes an estimate for day visits. This has been included, for illustrative purposes only, by assuming that expenditure on tourism day visits to the seaside and countryside is proportional to overnight tourist expenditure.

Agriculture gross output has been pro-rated to UAs by employment. To be used for illustrative purposes only.

Level of leakage of spending from the local area will differ by sector. See text.

2.1.46 In summary, Welsh tourism may account for, very approximately, 75,000 jobs in Wales, or about 6% of the total. The local authority areas where there is the highest dependency on tourist employment are Conwy, Gwynedd and Pembrokeshire. On average, jobs in tourism-related industries tend to be relatively low- paid and low-skilled. In rural areas, the contribution of tourism to the economy is greater than that of agriculture in most local authority areas, and in many areas significantly so. The main exceptions are Powys and Carmarthenshire.

Part 2: Functions

2.2 Rationale

Introduction

2.2.1 The functions of the WTB, as set out in the 1969 Act, are very broadly defined in terms of encouraging tourism and associated amenities. No account is provided of *why* this objective has been set.

2.2.2 It has usually been presumed that the underlying rationale for the functions as set out in the Act is socio-economic. And there appear to be two general categories of socio-economic justification for government support to the tourism industry:

- market failures may create a rationale for government intervention in the market for tourist services (and obvious potential failures in this area relate to the marketing function);
- in locations where there is a shortage of demand for labour, there may be both a social and economic case for government action to encourage economic activity and labour demand, and support to tourism may be a practical and cost-effective means of achieving this end.

2.2.3 However, there may be further reasons for promoting tourism (or at least, for promoting certain kinds of tourism) that are related to its environmental and/or cultural effects.

2.2.4 Each of these aspects of the case for promoting tourism are reviewed in turn, and the basis of a coherent rationale for promoting tourism is outlined. The specific activities of the WTB are then considered in the light of this rationale.

Market Failure

2.2.5 There is a general consensus amongst economists that a positive rationale is needed to justify, on economic grounds, an intervention in private markets. At the macro-economic level, HM Treasury sums up the argument in the following way:

“Public expenditure cannot generally create a sustainable increase in employment or output at the national level, because of the combined effects of displacement and crowding out. If it is financed by taxation, extra public consumption or investment directly displaces private sector consumption or investment. If it is financed by borrowing, and inflation targets are to be met, then prices in the economy must adjust (in particular interest rates and the exchange rate), and these changes crowd out activity elsewhere in the economy. Generally, this means that only policies which produce supply-side improvements will have employment benefits at the national level. It follows that the assumption for displacement and crowding-out combined at the UK

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level would be 100 per cent or more, unless there are supply-side improvements.”¹⁰

2.2.6 Government intervention will therefore have only a net positive effect if there are resulting supply-side improvements. And this will only be the case in the presence of market failure.

2.2.7 Furthermore, government should not intervene in private markets unless the resulting costs and benefits represent efficient use of economic resources. This means that, even when the focus is on a smaller area than the UK as a whole, considerations of efficiency suggest that the greatest gains will be obtained if available resources are:

- targeted on correcting market failure, and;
- there are good reasons to believe that the government is able to improve on the outcome that would result from the free operation of market forces.

2.2.8 The existence of market failure is therefore a crucial element in the case for the existence of the WTB.

2.2.9 It should be stressed that “market failure” does not mean the simple failure of the market system to deliver an outcome that is, from some point of view, “favourable”. Market failure is properly defined as a situation in which the economically efficient outcome has not been achieved because of *imperfections in the market mechanism*.

2.2.10 Markets may fail to deliver the optimum level of activity in the following kinds of circumstance:

- Where there are *barriers to entry and exit* which may lead to insufficient actual or potential competition.
- Where more consumption by one person does not mean less for another. This is the case for *public goods* such as defence.
- Where important costs and benefits are not reflected in prices. These are known as *externalities* and occur where a firm’s economic activity produces benefits for other firms or individuals, or costs to others which it does not have to meet itself.
- Where there is imperfect information and uncertainty. Imperfect information can lead to uncertainty, which can in turn produce an inefficiently low level of transactions. Markets for the production of information may function imperfectly because information is an experience good, making it difficult to value and market; because of the need to cover large fixed costs; and because of the difficulties associated with “free riding”.
- Where markets are missing completely, for example in respect of the interests of future generations.

¹⁰ HM Treasury: “A Framework of the Evaluation of Regeneration Projects and Programmes.”

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- Where there is localised deficient demand, such that it is possible to increase demand in that area with little or no effect on the price level.

2.2.11 In respect of the tourism sector, the main market failure is likely to relate to imperfect information, brought about by externalities associated with the supply of this information. It is costly for the supplier of a particular good or service to provide consumers with the necessary product information to allow the consumer to make an informed choice. In addition, the individual supplier cannot be sure that all of the benefits of providing information will accrue directly to him or her. For example, if a hotel owner in Tenby advertises her business, she will also be promoting Tenby in general and other tourism operators located there. These other operators will therefore have an incentive to “free ride” on the hotel owner’s expenditure. If all tourism providers act rationally, the outcome will be that insufficient (and perhaps inappropriate) advertising will take place.

2.2.12 Furthermore, informational problems are most severe where purchases are infrequent. In such circumstances, suppliers may have an incentive to misrepresent the quality of their product. Consumers will realise this, and even if no misrepresentation has taken place, they may be dissuaded from purchase.

2.2.13 More problems may arise in respect of market research. Particularly in a fragmented industry, it may be difficult to prevent firms free-riding on market research produced commercially, with the threat of such free-riding creating a disincentive to the production of such information. And, in any case, market research has the character of an experience good, which the market system may tend to under-provide.

Support to Economic Activity in a Target Area.

2.2.14 A second argument in favour of support to the tourist industry has both economic and social components. This argument presupposes that it is not desirable, on social and cultural grounds, for economic activity to tend to centralise in a few locations within Wales. Thus, steps may be taken to promote economic development in one particular location compared to other locations.

2.2.15 Support to the tourist industry, in particular, might be regarded as an effective way of promoting the creation and retention of economic activity in target areas¹¹. However, the argument is not confined to the tourist industry, and does not provide a rationale for confining the intervention to that sector.

2.2.16 Such interventions will generate net economic gains where redistribution of demand permits an overall higher level of economic activity consistent with inflation targets. (In this respect, the policy intervention can be

¹¹ Note that here the term “target areas” is intended to identify areas where there is a relatively low level of economic activity, not areas identified as having specific tourist potential.

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seen as correcting a market failure of the kind covered by the last bullet in the section above.)

2.2.17 Such considerations create, in principle, a coherent rationale for subsidising economic activity in particular locations. But it should be noted that the argument depends upon the restriction of the subsidy to *target areas*. If the subsidy is offered outside target areas, where there is little slack in the labour market, the short-run effect will tend to be an increase in incomes - with little or no increase in economic activity or employment because of displacement and/or crowding out. In the longer run, labour will be attracted to such locations, *at the expense of the target areas*.

Government Failure

2.2.18 Whilst the foregoing arguments create, in principle, a clear rationale for government intervention in the tourist industry, there are also circumstances in which government support for tourism could be inappropriate:

- As previously noted, where there is no significant shortage of demand for labour, financial support for tourist businesses could be wasteful. And it could lead to an unwarranted distortion in industrial structure (in fact one could envisage a situation of relatively tight labour markets in which the effect was to promote low-skilled and low-paid employment at the expense of more highly paid and skilled jobs).
- In certain locations, tourism may impose high costs on those outside the sector due to congestion and other associated dis-benefits.
- There may also be a risk that tourism-promoting bodies in different parts of the UK could become locked in an escalating battle for a relatively fixed market at increasing cost (this would represent a “prisoners dilemma” in which all could do better by spending less).

2.2.19 Furthermore, there are general reasons for being cautious about the circumstances in which governments can correct market imperfections:

- subsidy may lead to the protection of inefficiency and the creation of permanent dependency;
- governments and their agencies are themselves likely to suffer from informational and incentive problems, which may make their own actions less than perfectly efficient.

2.2.20 For these reasons interventions are best made where:

- support is time-limited and demonstrably additional, with reasons to believe that displacement¹² and crowding out¹³ will be limited;
- there is reason to believe that governments can do better than the market;

¹² Where the activity supported simply replaces other activities by diverting demand.

¹³ Where the activity supported results in the price of inputs, principally labour, being bid up, thereby reducing the employment of labour in other activities.

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- there is evidence (for example, from evaluation studies) that government intervention is cost-effective.

2.2.21 In identifying a coherent rationale for the functions of the WTB it is therefore important to bear in mind the scope for *both* market and government failure.

2.2.22 The presentation of the current Strategic Objectives of the WTB, as set out in the corporate plan, does not make an explicit link to the notion of market failure, or to evidence that government action in pursuing these objectives represents a cost-effective use of government resources.

There may be a particular difficulty with what WTB identifies as its “most important and fundamental role” – to “provide strategic leadership to a fragmented and dynamic industry”.

2.2.23 The point is that an industry differs in crucial respects from a single, unified business. An industry consists of a mass of individual firms that respond differentially to the wide variety of circumstances that they face. The appropriate mix of levels of service, quality, pattern of opening, level of staffing, and so on, will vary according to these circumstances. Market failures in the provision of information may create a role for government in supplying information to aid business decision making. But there is no reason to believe that an agency of government can determine the right level for the variables set out above across the range of circumstances that different businesses will face.

2.2.24 The point can perhaps be summed up by noting that whilst it makes sense to “position” a business in the market, it does not make sense to seek to position an industry. To try to do so threatens to replicate a key mistake of central planning.

Environmental Rationale and Sustainability

2.2.25 The Assembly has a statutory duty to promote sustainable development. And in the Remit Letter, the Board is asked to focus on, amongst other things, supporting and investing in sustainable tourism and recreation and in Green Tourism.

2.2.26 There is potential tension between the socio-economic rationale for the WTB’s functions and a rationale based on promoting tourism that has benefits for the environment and sustainability. At present, the WTB is expected to strike the requisite balance – no explicit guidance is provided by the Assembly on how to manage any trade-offs.

Social and Cultural Rationale

2.2.27 As part of the socio-economic rationale for the WTB’s functions, it has already been noted that a social case exists for supporting economic activity in certain parts of Wales. Furthermore, it can be argued that the nature of the employment offered in much of the tourist industry is such that it offers

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opportunities to the lesser skilled, those who need to work part-time, and those entering or re-entering the world of work.

2.2.28 It is also clear that tourism interacts in a range of ways with the culture of an area. A successful tourist industry could be a key source of support to traditional communities. On the other hand, tourist inflows could undermine traditional practices and ways of life. It is not possible to reach any general conclusions about the balance of effects – this will depend upon particular circumstances.

2.2.29 Such considerations can form further elements in the rationale for government intervention in the sector, but can also create a tension with the economic rationale.

2.2.30 This tension can be illustrated by reference to the Remit Letter, which requires the Board to focus on promoting Welsh culture and heritage as a key strength. This may or may not maximise economic returns, depending on the nature of the tourist market. Certainly, much market research suggests that scenery and natural beauty are the key marketing attributes for much of Wales.

2.2.31 *In summary, the economic rationale for the functions of the WTB is based on market failure. A market failure is a specific imperfection of the market mechanism. Government intervention is justified where there are good reasons to believe it can correct such imperfections in a cost-effective manner. The social rationale for the functions of the WTB is based on the case for supporting economic activity in target areas.*

Recommendation: *The WTB should, in future versions of its Corporate Plan, further elucidate the rationale for its choice of Strategic Objectives. A link should be made between the Strategic Objectives, the existence of market failures (which should be clearly distinguished from market outcomes) and evidence on the cost-effectiveness of remedies for such failures.*

Recommendation: *The Welsh Assembly Government should consider the scope for (a) extending the research base to better inform WTB decisions on the trade-offs between economic, environmental, social and cultural objectives, and (b) developing guidance on the balance to be struck by the WTB between such objectives, perhaps as part of the work for the forthcoming Wales Spatial Plan.*

Recommendation: *Where WTB is required to address specific market failures as part of a time-limited programme (eg Objective 1), associated increases in WTB budgets should be separately identified, and time-limited.*

The Public Interest and The “Customer”

2.2.32 It is clear, therefore, that the core function set out in the 1969 Act, that of “promoting tourism” needs to be qualified if it is to have a coherent

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rationale. Tourism is not a self-evident good, and its promotion is not justified in all circumstances, irrespective of the varying costs and benefits.

2.2.33 The qualification that is needed is one that reflects the wider public interest. Most simply, a revised function along the lines of “promoting tourism in so far as this is in the public interest” would seem to be more appropriate. And such a revised function is indeed closely reflected by the WTB’s own mission statement:

“The mission of the Wales Tourist Board is to improve the economic and social prosperity of Wales through the effective marketing and development of tourism.”

2.2.34 It has become fashionable in recent years to emphasise the importance of identifying the customers for publicly provided services. However, it is clear from the discussion of the rationale for the WTB’s core function that the identification of “customers” is not straightforward in this case. For certain activities, the immediate customer is probably an individual tourist business, and for other activities, arguably, tourist themselves. But given the underlying need to intervene only where there is a overall gain to society, the public interest represents a further, and perhaps ultimate “customer”.

2.2.35 The implications of the rationale will be explored more fully in subsequent chapters, but it may be worth noting here that:

- the complexity of the core function may make it less appropriate for contracting out or privatisation, and more appropriate for provision by a public body;
- there is a need to relate any targets set to the core function, particularly as it is clear that tourist is not simply something to be maximised, always, everywhere, and whatever the cost.

Rationale for Individual Activities

2.2.36 Individual WTB activities are next briefly examined in the light of the rationale for government action, as set out in previous sections. (No presumption is made at this stage that activities for which there is a coherent rationale should continue to be carried out by the WTB, rather than by some other body.)

2.2.37 *Marketing activities.* The economic case, in principle, for marketing activities follows directly from the market failures already described. In the absence of government intervention, marketing activities are likely to be under-provided because of the scope for free-riding. This problem will be amplified in fragmented sectors.

2.2.38 This argument can be applied to a wide variety of marketing activities, including activities to promote spreading demand outside the peak season

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periods; the provision of Tourist Information Centres; and the development of the Destination Management System.

2.2.39 Further, non-economic, grounds for marketing may be found in the desire to promote certain kinds of beneficial environmental, social or cultural effects, for instance those associated with promoting more environmentally friendly tourism, or creating a more positive self-image within Wales.

2.2.40 The main obstacle to intervention in this area is the difficulty of assessing the effectiveness and value for money of government-sponsored marketing activities. This will be discussed further in [chapter X].

2.2.41 Research is also important in determining the appropriate focus for a marketing campaign. For example, it is not obvious whether, within the UK market, it is most effective to seek to exploit a “Wales brand” or to market on a sub-Wales basis.

2.2.42 *Market research.* Similar economic arguments, associated with free-riding apply to market research. In addition, such research is an experience good. (The effective dissemination of results of market research is of course crucial to the case for intervention in this area.)

2.2.43 *Grading.* The case for government intervention in the provision of grading rests upon the benefits to consumers of impartial information on quality, and the difficulties faced by the free market system in providing such information. In the absence of impartial information on quality, insufficient tourist activity might be expected.¹⁴

2.2.44 *Business advice.* The provision of business advice again suffers from the well rehearsed problems associated with the supply of information of all kinds, and there is a likelihood that it will be under-provided by the free market. And the provision of business advice is generally recognised as an appropriate area for government involvement.

2.2.45 *Product development.* The development of new products could be regarded as a form of innovation. The case for government support may then rest upon the argument that such innovation provides wider benefits, perhaps through demonstration effects, whereby other potential suppliers gain information from the pioneer. There may also be a role for government in promoting co-ordination between suppliers of different elements of the overall product.

¹⁴ The question of whether commercial quality assurance and grading schemes, such as provided by the AA and RAC, could operate effectively to meet this need is however a difficult one, and goes beyond the scope of this review. This issue would be best considered as part of any review of the current grading scheme.

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2.2.46 *Grants*. The social case for the provision of investment grants is to encourage economic activity in target areas¹⁵. The question then is whether investment grants to *tourist businesses* are a cost-effective method of delivering this objective (particularly when in principle the argument applies to *all businesses*). This issue is considered later.

2.2.47 “Section 4” grants, provided under the 1969 Act, are not confined to target areas. Outside such areas, the case for the provision of grants must rest on the existence of market failure. And here argument is less clear-cut.

2.2.48 It is sometimes argued that there is a general case for subsidising certain kinds of output simply because these are under-provided by the market, when compared with some hypothetical desired outcome. In the context of Welsh tourism, it has been argued more specifically that quality is too low, and that one of the functions of the WTB is therefore to improve quality.

2.2.49 It has already been seen that informational problems may mean that, in the absence of centrally provided information, businesses in a fragmented industry may lack information about customer preferences, and about the likely direction of change of those preferences over time. But the obvious response to this is to provide information which allows individuals to make informed choices. It does not follow that it is cost-effective to subsidise certain kinds of output.

2.2.50 The level of quality that can be supported is determined by the interaction of supply and demand. It is difficult to see how an arm of government is better placed than local businesses to determine the level of quality appropriate to a particular time and location. And if a given level of quality is not supported by the local market, over time it will simply adjust back towards a pre-existing equilibrium¹⁶.

2.2.51 This does not, of course, mean that, in offering support to business for social reasons (see above), it is inappropriate to use market intelligence to direct that support to where it is most likely to produce a return. But it does mean that there is a reason to be cautious about a general justification for support in terms of “increasing quality”.

2.2.52 It could be argued that by increasing quality in individual businesses, the perception of the overall product, perhaps a particular location, will be enhanced¹⁷. However, it seems unlikely that the scale of support currently offered, or in prospect, when compared with the overall level of re-investment

¹⁵ Note again that here the term “target areas” is intended to identify areas where there is a relatively low level of economic activity, not areas identified as having specific tourist potential.

¹⁶ It might be noted in this connection that an industry differs in important respects from an individual business. In running a business it makes perfect sense to focus exclusively on a particular market segment. But an industry will cover all sectors of the market, according to the balance of demand and supply.

¹⁷ Presumably the idea here is that there is some kind of external effect, so that others gain from the quality enhancement within an individual business..

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in the industry, could achieve much in this direction, at least unless re-directed at a small number of significant projects or specific locations.

2.2.53 It follows from this that the general economic case for subsidising quality seems weak. The case for support to significant individual or co-ordinated developments that have the power to change overall market perceptions may be stronger¹⁸. This issue is taken up in chapter 3.3.

2.2.54 In summary, there appears in principle a clear rationale for most of the major activities carried out by the WTB. However, this is dependent on the scope for cost-effective intervention to correct the identified market failures and achieve the desired social objectives. Evidence from evaluation studies is crucial for assessing the scope for such action in practice. The rationale for investment grants specific to tourism businesses may be less clear-cut, particularly outside target areas.

¹⁸ The relatively large increases in budget associated with Objective 1 funding may facilitate the large-scale or coordinated interventions required to achieve critical mass.

Part 3: Effectiveness

3.1 Consultation

Introduction

3.1.1 Consultation for the Interim Review comprised four main elements:

- In accordance with normal practice, the announcement of the review included an invitation to interested parties to submit comments. The review was the subject of a Welsh Assembly Government Press Release. The WTB was also asked to publicise the review and ask for comments. In addition, the review officer wrote to a number of bodies with an interest in the WTB's functions, drawing attention to the review and seeking their views. Comments were requested by 18 January 2002, and a total of 42 responses were received. The review officer interviewed a number of the respondents in order to explore their views more fully.
- A series of discussions were held with WTB, Assembly officials, and a range of other organisations (including Regional Tourism Companies, local Tourist Associations, local authorities, the WDA, and UK tourist organisations and their sponsor departments) in order to gain a fuller understanding of the WTB's functions and relationships.
- A telephone survey of businesses that had experience of dealing with the WTB was undertaken.
- Two focus group meetings were held with randomly selected WTB staff.

3.1.2 There are difficulties of practice and principle in undertaking consultation on the need for, and performance of, a body such as the WTB whose actions reflect the wider public interest, as well as those of its direct customers.

3.1.3 It was almost inevitable that the main focus of the consultation process would fall on tourist businesses. In so far as the WTB provides services, both directly and indirectly, to such business, this focus was of course entirely appropriate.

3.1.4 However, it would not be reasonable to expect the views of tourist businesses to reflect fully the wider public interest. Whatever the pre-existing situation, tourist businesses will probably be inclined to suggest that more support is needed. In putting forward this position, they are unlikely to be aware of the scale of any benefits that might be achieved by using public money in a different way. (And even if they were aware of such benefits, they might not be persuaded by them!)

3.1.5 Furthermore, individual sectors of the industry may naturally tend to argue that they do not get their "fair share" of whatever is available to the industry as a whole.

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3.1.6 It is also to be expected that any businesses, or individuals, that have suffered as a result of a change of priorities by the WTB will feel aggrieved.

3.1.7 This all gives rise to two problems in interpreting the results of a consultation exercise. First, it can be difficult to distinguish evidence of poor performance from comments that reflect a more limited perspective. And second, the consultation process may itself create pressure for the reviewer to focus on the channelling of benefits to the industry, rather than giving due weight to the wider public interest which has not been so well championed.

3.1.8 Furthermore, it would be naïve to presume that comments on the WTB's performance from other public bodies are necessarily free from the constraints of a narrow perspective, or, perhaps, a sense of rivalry.

3.1.9 There is no formulaic method for "adjusting" the results of consultation to take account of such considerations. They do, however, make inevitable the exercise of judgement in interpreting the responses.

Response To Consultation

3.1.10 The key themes that emerged from the consultation process are summarised in Table 10, and further analysed below.

The Trade and Public

3.1.11 Interpreting the trade's response was particularly difficult as, on certain issues, it was heavily polarised. There was, however, a general consensus on the continuing need for a body similar in nature to the existing WTB, and a general, though not universal, consensus on the effectiveness of the WTB's main UK marketing activities.

3.1.12 It should also be stressed at the outset that there were a large number of very positive comments on the WTB, commending in particular:

- The adoption by the WTB of a more selective and strategic approach.
- The increasing prevalence of business experience on the part of board members, with the chairman singled out as a good example.
- The exceptionally speedy and effective response to Foot and Mouth Disease.

3.1.13 Quite a broad range of individuals from the trade assumed that the rationale for the WTB was "to help the trade, full stop" – that is, with little or no acknowledgement that this was appropriate only in so far as it represented an efficient use of scarce (public) resources. A common view was that the tourist trade deserved its "fair share", and a comparison with the level of support to agriculture was quite often made.

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Table 10: WTB Consultation Response

Rationale	Structures	Location of functions	Duplication	Partnership working	Communication	Organisation	Effectiveness
Is there a continuing need for the functions?	Are the functions best delivered by an ASPB?	Is there scope for the transfer of functions?	Is there duplication or confusion over functions?	Does the WTB work effectively with partners?	Does the WTB communicate effectively?	Is the WTB structured appropriately?	Is the WTB effective?
<p>Consensus on continuing need.</p> <p>Some confusion about the rationale, with many seeing the WTB as a “voice for the industry”, performing a lobbying function.</p> <p>Some argued for a much greater focus on strategic core functions, with other activities being spun off.</p>	<p>General consensus; minority view that agency status should be considered in longer term.</p>	<p>Some expressed view that investment support might be better integrated with similar work carried out WDA.</p> <p>Varied views about the best location for responsibility for international marketing, and the division of responsibility with BTA.</p> <p>Some views that WTB should take over TICs to ensure consistency and a strategic approach.</p> <p>A suggestion that research should</p>	<p>Some expressed view that there exists the risk of duplication/ Confusion over business support and training.</p> <p>Widespread view that the regional arrangements are potentially confusing, and there is scope for duplication with work of regional economic for a.</p> <p>Some concerns about the apparent division of policy responsibility between Assembly and WTB, and the need for greater</p>	<p>Concerns expressed by local government (and to some extent other public sector partners) about effectiveness of consultation, and in particular the imposition by the WTB of both policy and timetables.</p> <p>Concerns expressed by some sections of the trade about relations with smaller businesses, particularly in the light of the restructuring in the regions.</p>	<p>External communications on the transition to, and role of, RTPs widely held to be poor, but this degree of concern does not extend to other fields.</p> <p>Some expressed the view that the WTB is not sufficiently transparent, particularly at board level.</p> <p>Some expressed the view that the WTB does not take the results of consultation seriously.</p> <p>Some concerns</p>	<p>Quite widespread concerns about the arrangements for RTPs, and in particular the method of implementation.</p> <p>Some expressed the view that the WTB is over-centralised, and unwilling to devolve real power.</p>	<p>General support for the view that the WTB is effective.</p> <p>Some support for the view that more research and evaluation is needed.</p> <p>Some support for the view that more effective work is needed international markets.</p> <p>Some expressed the view that not enough is done to promote culture, heritage, and sustainable tourism, but others viewed this as a dangerous diversion.</p> <p>Some expressed the view that the WTB has recently become</p>

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		<p>be carried out principally by HE institutions on behalf of the WTB.</p> <p>Several expressed the view that grading should have remained outsourced, on grounds of both principle and practice.</p> <p>Wide support for greater devolution of power and resources to the regions, but coupled with a “wait-and-see” attitude to the RTPs.</p>	<p>clarity on policy responsibility.</p>	<p>Some expressed the view that the Assembly does not give sufficient guidance on difficult trade-offs, particularly over sustainability.</p> <p>Strong views expressed by some that the WTB does is not responsive to views of the trade, and that new mechanisms are required to correct this.</p> <p>Some expressed the view that the WTB does not have sufficient influence over BTA agenda, which does not give enough weight to Wales.</p>	<p>over internal communications, particularly between Marketing and Development.</p> <p>Some expressed the view that research results were not disseminated effectively.</p>		<p>more strategic, and been more able to withdraw from non-strategic activities.</p> <p>Others contrasted the claim to be strategic with the decision to bring grading back in-house.</p> <p>Some question the wisdom of high spending on marketing in long-haul markets, given the current visitor profile.</p> <p>Some pointed to the scope to increase marketing to Welsh residents.</p> <p>General approval over FMD efforts.</p> <p>Some expressed the view that the WTB had concentrated excessively on increasing the number visitor attractions, which had resulted in displacement.</p>
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3.1.14 Some argued that, despite recent improvements, there remained a need for the WTB to adopt a clearer strategic focus, with non-core activities being spun-off, and, in particular, a reversal of the recent decision to bring grading activities back in-house.

3.1.15 Some also suggested that undertaking grading in-house could lead to concerns about impartiality. It was stated, for instance, that individuals subject to grading by the WTB might feel less able to criticise that organisation.

3.1.16 Some doubts were expressed about the wisdom of major spend in long-haul markets given the current (and prospective) contribution of this market segment to total tourist expenditure in Wales.

3.1.17 A few critical comments were received which alleged that the WTB had over-emphasised tourist attractions, leading to over-provision and the displacement of business.

3.1.18 The most widespread criticism, which came from several sections of the trade, concerned the Regional Tourism Partnerships (RTPs). Critical comments covered:

- The handling of proposals to create RTPs. The process was allegedly characterised by poor communication, ineffective consultation with both the trade and local authorities, and a lack of clarity, particularly over the role planned for the RTPs, and the future of the Regional Tourism Companies (RTCs).
- The constitution of RTPs, and in particular the lack of geographically based representation from the trade.
- The transition process, which led to uncertainty, both for staff of RTCs and for their customers.

3.1.19 In a number of cases, criticisms over the RTPs was linked with a more general view that the WTB was “out of touch with the grass roots” (meaning by this the smaller, more traditional, operator). It was argued that steps needed to be taken to increase the representation of the grass roots within the WTB.

3.1.20 Some commented on confusion, and possible duplication, over the provision of business services (and perhaps training), echoing the results of earlier work carried out for the Quinquennial Review of the Welsh Development Agency (WDA), and the Assembly Economic Development Committee’s Review of Business Services.

3.1.21 A few consultees commented that both the provision of grant support for business development and the provision of business advice belonged more naturally within the WDA.

3.1.22 Several comments revealed a perception of poor communication within the WTB, particularly in respect of the link between development and marketing activities.

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3.1.23 Several comments were also made about an alleged lack of transparency in the operation of the board itself, especially since the changes to the board structure, and the reduction in the number of full board meetings.

3.1.24 Divergent views were expressed about the role of culture and language. Several responses suggested that the WTB did not do enough to promote this aspect of the Wales “product”. Conflicting responses, however, suggested that *too much* was already done in this respect. Efforts in this area were thought to reflect external pressure on the WTB, rather than a sober assessment of what would achieve results.

3.1.25 One consultee made an important point about the risks associated with the provision of financial support. It was noted that this could lead to grant-dependency - an orientation away from attention to market needs and towards the public sector as a principal source of income.

3.1.26 Several respondents referred to the potential for conflicts of interest arising from the (otherwise welcome) presence of those with industry interests on the board.

The Public Sector

3.1.27 Comments from within the public sector were generally favourable in respect of the marketing expertise of the WTB, and several extremely complimentary responses were received from other marketing professionals.

3.1.28 Several comments (from local government) were to the effect that the WTB did not always engage in consultation, when it did, the consultation was not always meaningful. It was also alleged that the WTB set deadlines that were unrealistic for local government.

3.1.29 It was also commented that the WTB’s actions (as opposed to its words) did not always reflect the Assembly’s commitment to sustainable development, or to partnership working.

3.1.30 Several comments suggested that a change to Agency status should be considered in the future, in order to clarify the location of policy responsibility.

Telephone Survey

3.1.31 A small, randomly selected, sample of 25 operators was contacted across Wales. The objective was to identify any issues not already identified through the other elements in the consultation process, rather than attempt a statistically valid survey.

3.1.32 Overall, the results of the survey were consistent with the rest of the consultation.

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3.1.33 Respondents had generally positive impressions of the WTB and its effectiveness. Particularly complimentary comments were again received on the way the WTB coped with impact of Foot and Mouth Disease and its aftermath.

3.1.34 Several respondents referred to “payments for membership of the WTB”. It is presumed that they were referring to membership of their Regional Tourism Company (or other organisation), but this did betray a certain lack of clarity over the WTB’s relationship with the trade.

3.1.35 Perhaps inevitably, many respondents expressed concern about the level of charges for advertising in WTB sponsored publications. There was also resentment about the perceived need to advertise in publications produced by a range of different organisations, some of which were believed to be, in effect, subsidiaries of the WTB.

3.1.36 Several respondents noted that much printed information is received on a bilingual basis. This was not always needed, and there could be scope for allowing recipients to opt for publications in English only.

3.1.37 A number of comments closely reflected those received through other channels:

- several respondents referred to the potential for conflicts of interest arising from the presence of those with industry interests on the board;
- several respondents thought that the active promotion of the Welsh language and culture risked being ineffective or even counter-productive in the UK market;
- a number of respondents stated that they felt that the WTB was not sufficiently responsive to the needs of smaller operators.

3.1.38 Finally, several respondents noted the importance of the facilities provided by their local council (such as public conveniences), and thought that the WTB might be able to do more in promoting high standards in such areas.

Staff

3.1.39 In interpreting the views expressed by staff during the focus groups activities, it is important to remember that they inevitably reflect the membership of the groups. Although randomly selected, the numbers attending represented only about 10% of the organisation.

3.1.40 Staff were broadly positive about their organisation. However, a number of specific concerns were noted:

- Some staff felt the need for more guidance from the Assembly on how achieve difficult trade-offs, especially regarding sustainability (but also social inclusion). It was felt that the Assembly had tended to “pass the buck” on this, with the result that actions did not always match the words.

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- Much reference was made to internal communications, which offered scope for improvement. For example, a staff magazine had been started, but then suspended, apparently due to the pressures imposed by the Foot and Mouth crisis. However, it was noted that a system of team briefing was in prospect, and that this may yield improvements¹⁹.
- The linkages and communications between development and marketing were recognised as imperfect (but with some hopeful signs, for example in respect of product nurturing, which comprises one person from each area). The physical shape of building was felt to be a significant feature here, with many references to the “lift shaft divide”.
- Staff were not fully clear on the role of the board, which seemed to staff to have little practical impact on their work. In particular, board members were seen almost exclusively as part of the public face of the office.
- It was noted that the Assembly can be unhelpful in its dealings with the WTB – for example in requiring briefing at the last minute; issuing duplicate requests for information; and through the turnover of staff leading to a lack of expertise.

WTB Views

3.1.41 As part of the review process, the WTB was invited to provide a submission. This is included as Appendix 4.

3.1.42 Major points made by the WTB include:

- The highly fragmented nature of sections of the industry in Wales creates a need for the WTB to undertake marketing, provide strategic leadership and support for key investments.
- The WTB has played a key leadership role in developing, in partnership with the industry, the tourism strategy set out in “Achieving Our Potential”. This is built around four key themes: sustainability, quality, competitiveness, and partnership.
- Much has been done to improve the brand image for Wales, but much more is needed. The WTB acknowledges the need to work with the Welsh Assembly Government on this.
- The WTB has given growing emphasis given to partnership working, including establishing 16 Tourism Growth Areas, and creating the new Regional Tourism Partnerships.
- The UK direct marketing campaigns over the last three years have been very successful. WTB research has indicated that every £1 spent has generated £30 of additional holiday spending in Wales.
- Good progress has been made by the WTB in developing the innovative Destination Management System (DMS), to be launched in March 2002²⁰.
- The WTB has demonstrated a commitment to quality, for example by its progressive introduction of quality grading schemes; decision to bring

¹⁹ The WTB has committed resources to improvements in internal communications from April 2002.

²⁰ The DMS will provide a central database of information about Wales and the tourism products available, and support a customer booking service, call centre and related services.

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quality grading back in-house (and combine it with a quality advice service); consultation with the industry over the introduction of a statutory grading scheme.

- The WTB has effectively used investment support grants to improve the quality of the product and create jobs.

The WTB believes its effectiveness could be increased by:

- Internal restructuring and an associated increase in running costs²¹;
- Improved understanding of sharing of roles and responsibilities with partner organisations, through the development of a family of agreements similar to those already established with BTA and WLGA;
- Support for an initiative to create an independent “voice of the industry”;
- The development of improved targets, more related to factors under the WTB’s control;
- Representation on the Welsh Assembly Government’s planned Economic Research Advisory Panel to ensure that the research and statistical needs of the tourism industry are given appropriate consideration;
- Introduction of Statutory Registration.
- Improved air transport gateway and links to facilitate the development of the overseas visitor market;
- Public sector support for hardware purchase and training to help tourism businesses take advantage of the DMS and ICT more generally.

3.1.43 In summary, an extensive consultation programme has been undertaken, comprising the analysis of written submissions, meetings with members of the trade and with other public sector organisations, and a telephone survey of individual businesses.

3.1.44 The interpretation of consultation responses is not straightforward, as consultees will not always be in a position to take full account of the WTB’s rationale and wider responsibilities.

3.1.45 Mainly positive and supportive comments were received, and there was no support for the abandonment of the WTB’s functions, and little support for radical change to organisational structures.

3.1.46 The most commonly expressed concerns of the trade focused on the prospective role for the RTPs; the management of the process leading to the formation of the RTPs; responsiveness of the WTB to (some sectors of) the trade; and the transparency of the WTB’s processes, especially in respect of the operation of the board itself.

3.1.47 The main concerns expressed by the public sector concerned the commitment of the WTB to genuine partnership working.

²¹ At the time of writing this is under discussion with the Welsh Assembly Government.

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3.1.48 Staff of the WTB were most concerned about internal communications, and especially linkages between development and marketing divisions.

Part 3: Effectiveness

3.2 Impact of WTB

Approach

3.2.1 Assessing the impact of any organisation on the wider socio-economic environment is an extremely challenging problem. The WTB is no exception.

3.2.2 Central to the problem is the need (a) to define the outcome that policy is intended to effect, and (b) to answer the question “what would have happened otherwise?” This latter question is important because it is always possible that a certain outcome would have occurred anyway (ie the policy is not additional) or that some apparently beneficial effect is offset by unintended consequences (as a result of displacement or crowding-out).

3.2.3 Essentially, there are three types of approach to identifying the impact of a body like the WTB. First, one may examine changes at the macro level, for instance, GDP, and try to determine whether the trends that are observed can be linked in a plausible way to WTB activities. The major problem here is that the more policy-relevant the outcome the more complex becomes the problem of identifying the impact of the WTB.

3.2.4 Presumably, the ultimate objective is to maximise some measure of sustainable economic welfare. However, there is no agreed or operational measure of such a concept. Even if we restrict our attention to a more conventional measure of economic welfare, such as GDP, it is clear that the range of factors affecting the outcome is so great that attempting to isolate the effect of the WTB will be an almost hopeless task.

3.2.5 In practice, therefore, it is probably necessary to confine attention to an even narrower outcome measure, such as tourist expenditure. However, this suffers from the defect that, in principle, increasing tourist expenditure may not lead to an increase in GDP (or could even decrease it). This may occur if it happens by crowding out other economic activity. And it remains the case that tourist expenditure is subject to a range of influences outside the control of the WTB, so that it will still be very hard to tell what difference the WTB has made (or, in other words, what would have happened otherwise).

3.2.6 Nevertheless, even if they are not conclusive, changes at the macro level may be suggestive of the effectiveness or otherwise of the WTB. Benchmarking against other nations and regions may help inform an overall judgement. And, at least, the macro level provides necessary context for understanding the operation of individual programmes. The macro level is therefore examined first.

3.2.7 The second approach moves to the other end of the spectrum, and looks at the effectiveness of the individual programmes carried out by the WTB. This approach first examines the rationale of an individual programme, to establish the nature of the mechanisms that the programme is designed to

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affect. On the assumption that the rationale is indeed coherent, the next step is to examine the chain of events induced by the policy, from activities, through outputs, to outcomes. Questions of additionality, displacement, and crowding-out must be addressed. Finally, it may be possible to reconcile the outcome of the sum of the individual programmes with the trends observed at the macro level, thereby giving added confidence to any conclusions.

3.2.8 In the context of a Quinquennial Review, this second approach basically amounts to a review of extant evaluation studies as carried out by the WTB (or other bodies which have similar programmes). It is not feasible within the review process to undertake new evaluations.

3.2.9 The third and final approach makes no attempt to assess ultimate outcomes, but focuses on processes and relationships. If apparent malfunctions are identified, perhaps through the consultation process, these are investigated to see whether there is any evidence that they are inhibiting organisational performance.

3.2.10 In summary, it is extremely challenging to produce an objectively-based assessment of the effectiveness of the WTB. This is because ultimate outcomes are affected by many factors outside the WTB's control, and because it is hard to assess in practice "what would have happened otherwise". Nevertheless, information on trends in tourist expenditure and on other target variables; a review of evaluation studies; and an examination of processes and relationships can all help inform an overall judgement on effectiveness.

Trends in Tourism

3.2.11 The judgement is made here that tourist spending provides the most relevant contextual information for assessing the performance of the WTB. Whilst not an ultimate outcome, there is a reasonable expectation that across a range of circumstances an overall increase in tourist expenditure might be expected to contribute to the growth of GDP. And whilst far from wholly within the control of the WTB, one would hope that WTB activities would have discernable effects on the level of tourist expenditure – although, as already noted, it is in practice extremely difficult to assess "what would have happened otherwise".

3.2.12 The focus here is on tourist expenditure, rather than tourist numbers, since the former is more closely related to potential economic benefit. However, numbers and expenditure tell a generally similar story.

3.2.13 An obvious feature of tourist expenditure is that it exhibits long run trends. For example, many categories of leisure expenditure, including tourist spending, would be expected to rise more than proportionately than income. However, the geographical distribution of this expenditure will reflect consumer's tastes and their assessment of the relative merits of competing destinations. As noted in chapter 1.2, the available evidence suggests that the total market for overnight holidays in Wales has been in long-run decline.

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3.2.14 Forward-looking research in this area is limited, but the BTA has recently published results which indicated that changes in income levels in the UK have a greater impact on British outbound tourist expenditure than changes in income levels in other countries have on expenditure by overseas visitors in Britain.²² (One implication of this is that, if Britain's GDP grows at the same rate as the OECD average, and exchange rates remain stable, outbound tourism will increase faster than inbound tourism.)

3.2.15 Taken together, this evidence suggests that the tourist industry in Wales might be under long-run pressure, and that relative growth will be hard to achieve.

3.2.16 As tourist expenditure exhibits trends, a simple record of changes in levels, or even of changes relative to GDP, is unlikely to prove useful in assessing performance. In the case of tourist spending by UK residents in Wales, it is likely that a major driver of change is the movement in the overall level of UK tourism spending. The performance of Wales may therefore best be represented by its share of this total.

3.2.17 This information, together with comparable results for Scotland, are shown in Table 11 and Chart 1.

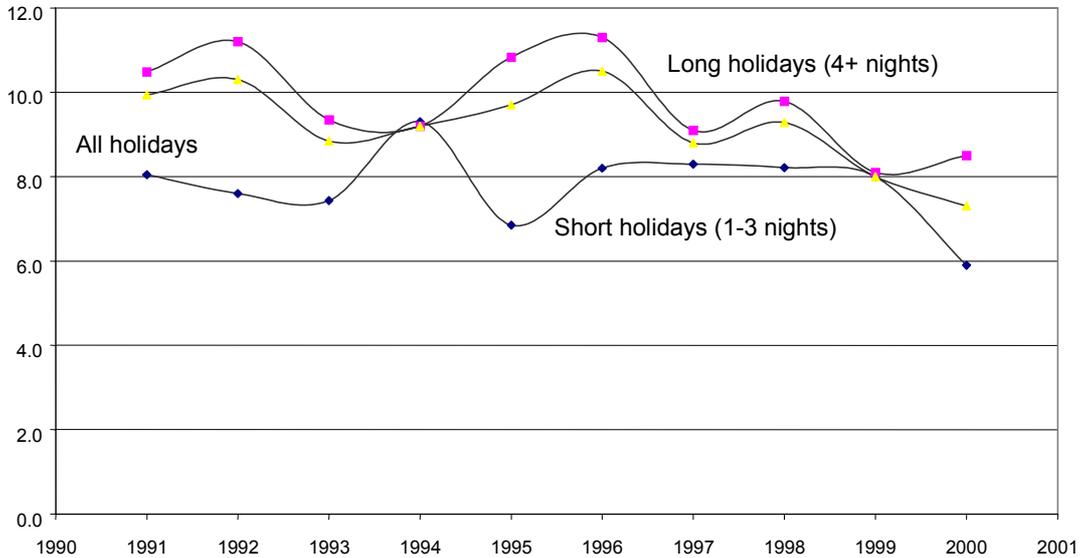
Table 11: Holiday tourism spending by UK residents

Year	Wales's share of total UK spending:			Scotland's share of total UK spending:		
	Short Holidays 1-3 nights %	Long Holidays 4+ nights %	All Holidays Any nights %	Short holidays 1-3 nights %	Long Holidays 4+ nights %	All Holidays Any nights %
1991	8.0	10.5	9.9	9.9	12.1	11.6
1992	7.6	11.2	10.3	9.3	11.6	11.1
1993	7.4	9.3	8.8	10.0	12.6	11.9
1994	9.3	9.2	9.2	8.7	10.2	9.7
1995	6.9	10.8	9.7	9.9	11.0	10.7
1996	8.2	11.3	10.5	9.5	12.7	11.8
1997	8.3	9.1	8.8	8.5	13.2	12.1
1998	8.2	9.8	9.3	8.6	11.9	10.8
1999	8.0	8.1	8.0	8.0	11.5	10.4
2000 ²³	5.9	8.5	7.3	12.3	15.6	14.0

²² "Sensitive Tourists" Caledonian Economics for British Tourist Authority, 2001.

²³ Note that because of changes in methodology, results for the United Kingdom Tourism Survey 2000 are not directly comparable with 1999 and preceding years. More details on the change in methodology are given below.

Chart 1: Wales's Share of UK Tourist Spending (%)



Source:

The UK Tourist Statistics 1999.

3.2.18 Broadly, and excluding results for 2000 which may be non-comparable due to the change in statistical methodology, it appears that the overall performance of UK tourism in Wales has been broadly unchanged over the 1990s. The performance of short holidays (relatively stable at around 8% of the UK market) appears a little better than longer holidays (fluctuating around 10% of the UK market, but with some indication of a downward trend)²⁴.

3.2.19 On the face of it, this might be thought fairly unimpressive. However, interpretation of this information is not at all straightforward. It is perfectly

The survey method 1989-1999 involved face to face in-home interviews using the Electoral Register as a sampling frame. Approximately 70,000 respondents were interviewed each year by NOP. From 2000 the research methodology changed to telephone interviews using random digit dialing. The survey is conducted by BMRB, and is based on 50,000 interviews with adults per year, with interviewing being spread evenly throughout the year. While the key principles of the survey design have remained unchanged, there have been some changes in survey methodology which have affected the level of tourism volume and value reported by the survey. An important feature of the new methodology is that it allows a longer time to make contact with consumers who are not available when the initial attempt to contact the person is made. This greater ability to re-contact consumers over a longer time period is particularly relevant for more frequent tourists who are more difficult to contact because of their more frequent absence from home. Therefore the new survey is better able to represent the more frequent tourists, and this results in higher estimates of the volume and value of tourism than in the old survey methodology.

Data for UKTS from 1995 to 1999 are being reworked to enable comparisons to be made with 2000 and should be available in Spring 2002.

²⁴ Data over a longer run suggests that Wales share of total UK holiday spending has been around 10% since the early 1970s, with the figure for the 1970s averaging a little over 10%, and those for the 1980s and 1990s a little under 10%.

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consistent with the view that adverse trends were affecting the Welsh market, such that, in the absence of WTB action, there would have been clear deterioration. (Some support might be given to this view by comparing the performance of Scotland over the period, which was, if anything, rather poorer than Wales.)

3.2.20 Spending by overseas residents in Wales tells a rather similar story²⁵. Shares of total UK spending are given in Table 12 for Wales, Scotland, and England excluding London.

Table 12: Overseas residents spending in UK

Year	Wales share of Spending by Overseas visitors to the UK %	Scotland share of Spending by Overseas visitors to the UK %	England (excluding London) share of Spending by Overseas visitors to the UK %
1991	1.8	6.9	36.7
1992	1.7	7.9	36.0
1993	1.9	7.2	37.0
1994	1.9	7.8	34.5
1995	1.7	7.2	34.9
1996	1.8	7.5	35.7
1997	1.9	7.1	35.7
1998	1.4	7.5	35.6
1999*	2.2 [1.7]	6.6 [6.8]	34.9 [35.0]
2000*	2.1 [1.8]	6.2 [6.4]	35.2 [35.1]

Source:

Achieving our Potential and Travel Trends

Note:

Change in methodology in respect of visitors for the Irish Republic affects comparisons of 1999 and 2000 with earlier years, in particular for Wales. Figures in square brackets are approximations to results that would have been produced under the old methodology. These are included for illustration, and should be treated with caution.

3.2.21 Note that again the methodology of the survey changed, resulting in a discontinuity between 1998 and 1999. The Office For National Statistics was, however, able to produce broadly comparable estimates on the old basis, and these are shown in square brackets.

²⁵ And again, a longer time series suggests a fairly stable picture over the period since the early 1970s, with Wales' share of overseas residents spending in the UK fluctuating, generally in the range 1.5-2.0%.

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3.2.22 It is notable that in 1992 the WTB gained the powers to market Wales overseas. Spending on this activity has gradually increased, to reach over £5m in 2001-02.

3.2.23 Overall, the picture could perhaps best be summed up as unimpressive, but with this judgement softened a little in the light of performance in the comparator regions. And again, it is difficult to draw direct conclusions about the performance of the WTB, beyond the rather banal one that these figures should give impetus to the case for an evidence-based and self-critical approach

3.2.24 The reviewer has considered the scope for the use of other comparators to benchmark Welsh performance. The most frequently mentioned comparator is the Republic of Ireland, which has experienced rapid growth in visitor numbers and earnings over the last decade. However, the status of the Republic as a first-choice destination (and, to a lesser extent, the sensitivity of overseas tourist earnings to exchange rate movements) makes the interpretation of differential performance very problematic.

3.2.25 In summary, the performance of the Welsh tourist industry over the last decade appears rather unimpressive, when seen in the context of tourist expenditure in the UK as a whole. This applies to both UK and overseas tourism (where the WTB commenced direct marketing activities in [1993]). However, this performance is certainly no worse, and perhaps better, than that of Scotland (or in the case of overseas tourism, England outside London). It is difficult to draw any direct conclusions from this about the performance of the WTB.

Research and Evaluation Studies

3.2.26 The WTB undertakes a systematic programme of research and evaluation, although the scope of the programme is limited by the available resources. In view of the difficulties associated with assessing performance at the macro-level, evaluation studies provide the greatest potential for contributing judging the cost-effectiveness of WTB activities.

3.2.27 The two principal sources of information relevant to the assessment of effectiveness are the continuing studies of the cost-benefits of marketing activities, or the so-called “return on investment”, and evaluation studies. These are examined in turn.

Return on Investment

3.2.28 Marketing activities can generally be characterised as being predominantly “Soft” (ie long term) or “Hard” (ie short term).

3.2.29 Where WTB is seeking to change attitudes and perceptions of Wales as a tourist destination through image advertising, the effects in terms of generating additional bookings are unlikely to be achieved in the short term. And in the long term it will generally be difficult to attribute changes in the level

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of bookings to such activities. Whilst “tracking studies”, which measure changes in the levels of destination awareness in the general population, can provide useful information, it has to be accepted that there is large measure of judgement involved in assessing the success of such image advertising.

3.2.30 In contrast, many of WTB’s campaigns seek to generate enquiries and stimulate bookings in the short term. For these campaigns, a more systematic assessment of effectiveness is possible, and the WTB has worked in partnership with the national tourist boards for Scotland and England, and the BTA, to produce a guidance manual which sets out good practice for evaluating tourism marketing.

3.2.31 The standardised approach adopted in line with the manual compares additional revenues resulting from the campaign with the costs incurred by WTB in running the campaign, thereby determining a return on investment (ROI) rate.

3.2.32 The target ROI for UK marketing is 30:1; for overseas marketing it is 12:1 (reflecting the greater difficulty of achieving short-term success in the latter markets).

3.2.33 It should be noted that ROI in Wales is not adjusted to reflect displacement from other UK destinations. A similar convention is applied in the rest of the UK. The result is that targets set for ROI within each country could result in escalating expenditure being incurred in competition for a pot that is more-or-less fixed at the UK level.

3.2.34 Central assumptions in the calculation of ROI relate to the demonstration of additionality (ie that without the campaign, the spending would not have taken place); the economic impact of the additional spending; and the costs of the campaign.

3.2.35 The key questions asked in respect of additionality are:

- “Did the information you received from the WTB turn a possible visit into a certainty?” The visit is only counted as additional if the answer is “Definitely”.
- “Did the information you received from the WTB encourage you to stay longer in Wales?” The number of extra days is then counted as additional.

3.2.36 An approach based upon these questions may be appropriate for *comparing* the effectiveness of marketing campaigns. For assessing the cost-benefit of a campaign, however, it appears to suffer from the defect that the possible visit, or longer stay, might have happened anyway. In other words, full additonality may not have been demonstrated.

3.2.37 One option would be to consider supplementary questions in order to investigate the *degree of likelihood* of the visit having taken place in the absence of the marketing activity. This would bring the methodology more

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into line with that employed in evaluations of other economic development activities.

3.2.38 Having ascertained the number of additional visits, these are converted into expenditure on the basis of average spending figures. However, if the intention is to examine cost-benefits, this again has a limitation.

3.2.39 As already discussed, tourist spending is not the same as, and almost certainly considerably greater than, the value-added in Wales generated by that spending. More research is needed to determine the relationship here, but once the results are available, it ought to be possible to use them to refine the estimate of the economic benefits arising from the extra visits.

3.2.40 Finally, the estimate of costs used in the calculation includes only direct costs. Staff costs and overheads are excluded. Clearly, in a full cost-benefit analysis, they should be included, as should any costs incurred by private sector partners.

3.2.41 If these corrections were made, it would be possible in principle to compare the net benefits of expenditure on marketing tourism with other economic development activities. This could be done either in terms of the value-added generated or the jobs created.

3.2.42 For illustration, assume that the target ROI for domestic tourism, 30:1, equates to a ratio for value-added to total costs of 15: 1, and that the target is achieved. Assume also that the cost of the campaign is £10 million (about the figure for 2001/02). This implies that value-added of £150m is generated in Wales. Making a further broad assumption that GDP per job in the sectors affected is £18,000, this would equate to sustaining 8,300 full time jobs for one year, with a “cost per one year job” of £1,200 (or about £9,000 per 10-year job²⁶).

3.2.43 This looks like exceptionally good value for money, even if allowance is made for the fact that some crowding-out will occur as a result of spending taking place in parts of Wales where the labour market is relatively “tight”. However, it may also reinforce the need for more research into the measurement of additonicity in this context.

3.2.44 This calculation also draws attention to a paradox. If a similar calculation is carried out on the basis of the target ROI for overseas spending, it shows an average cost of £2,600 per one-year job (or about £20,000 per 10-year job). On this basis, it would appear to be sensible to abandon overseas marketing, and re-allocate the resources to UK marketing.

3.2.45 The only circumstances in which this conclusion would not hold true would be if the marginal expenditure of overseas tourists were very much

²⁶ Note that, because of the need to discount costs incurred in future years, the cost of a 10 year job is less than 10 times the cost of a one year job.

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higher than the average for such tourists or vice versa for UK tourists. There seems no credible reason for the former to hold true. If the latter were the case, the scale of the difference between average and marginal benefits would probably imply that it is not cost effective to spend more on UK marketing, and that there may be a case for spending less.

3.2.46 The paradox might be resolved if more of the expenditure in overseas markets is image-building in nature, and if therefore the return will only take place in the long term. If this is the explanation, then one would expect to see, over time, the ROI in overseas markets rising towards that in the UK market. It would seem appropriate to monitor the outcome in maturing markets to confirm that this is the case (and perhaps to set targets on this basis).

3.2.47 In summary, long-term and short-term marketing may be distinguished. The former is concerned with image creation and promotion, the latter with generating visits.

3.2.48 It is difficult to evaluate fully the effectiveness of long-term marketing. The approach followed by the WTB is monitor changes in the public's image of Wales and attempt to relate such changes to its campaigns through "tracking studies". Short-term marketing is more amenable to evaluation, which is undertaken by assessing its cost-benefits (termed the "return on investment" - ROI).

3.2.49 Short-term marketing appears very cost-effective, but there are limitations in the methods used to assess ROI. The expenditure may not be fully additional. All costs are not taken into account. And expenditure generated will be greater than the value-added created in Wales.

3.2.50 ROI is much higher for UK than for overseas marketing. This may reflect the greater component of image-building in the latter. But if so, one would expect to see ROIs converge over time. If this does not occur, the overseas marketing in question is unlikely to be cost effective.

Recommendation: *WTB should seek to improve the measurement of additionality in the assessment of ROI (return on investment), and to include a full assessment of costs incurred.*

Recommendation: *In the light of possible research on the relationship between tourist expenditure and value-added, the WTB considers the scope for modifying the calculation of ROI (return on investment) to reflect the impact on value-added rather than expenditure.*

Recommendation: *The Welsh Assembly Government should monitor the relationship between ROIs (return on investment) for UK and overseas marketing, and considers setting targets for convergence.*

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Recommendation: *The Welsh Assembly Government should consider the scope for commissioning research to compare systematically the costs and benefits of interventions designed to stimulate economic development.*

Other Evaluation Studies

3.2.54 The most important evaluation study carried out in recent years investigated the WTB's investment support scheme ("section 4 grants"). It was undertaken by Seqal Quince Wicksteed Limited (SQW) between June and October 2002. Other studies have also been undertaken, particularly of individual events, most recently the Rugby World Cup.

Evaluation of Investment Support

3.2.51 SQW noted that in each of the years covered by their evaluation (1994/95 to 1999/2000), with the exception of 1995/96, WTB met or exceeded the targets it was set for generating private sector investment, leverage ratios²⁷, and jobs created or safeguarded.

3.2.52 SQW's approach involved an interview-based survey of 86 businesses that had been assisted by WTB. Over the sample of assisted projects, the average size of grant was almost £27,000 against an average project cost of £132,000. Most of the assisted businesses surveyed were accommodation providers and most projects concerned up-grade or refurbishment rather than the creation of new capacity. Most were aimed at expanding existing markets rather than attracting new markets to Wales.

3.2.53 As a result of undertaking the assisted project, 84% of businesses reported a growth in turnover, the average increase being 50%. This arose mainly through an increase in customer volumes rather than price increases. Some respondents also felt that their project had encouraged other operators to invest (a kind of demonstration effect).

3.2.54 SQW concluded that, overall, the survey of assisted businesses presented a positive picture. There was a generally high level of satisfaction with WTB delivery of the schemes and advice and training offered through group consultancy workshops were generally welcomed. It appeared that the assisted projects had contributed considerably to the performance of the individual businesses and may have stimulated wider economic benefits.

3.2.55 However, in terms of the underlying rationale for the WTB's functions, it is the wider economic impact that is crucial, and it is to this that SQW devoted further analysis. The economic impact was assessed mainly in terms of jobs created.

3.2.56 In respect of additonality, the response to SQW's survey indicated that:

²⁷ WTB assistance related to total project costs.

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- around a quarter of projects would not have gone ahead at all without WTB support;
- almost 30% were enabled to happen sooner than otherwise would have been possible;
- a further 30% went ahead either on a larger scale or higher quality.

3.2.57 On the basis of these responses, therefore, there is, at least, an element of additionality in 90% of cases. Overall, SQW judged additionality to be 50%.

3.2.58 SQW concluded that the “additionality achieved by the WTB schemes as reported above has to be regarded as a creditable performance”²⁸.

3.2.59 However they also noted that “arriving at judgements of additionality is difficult.” One obvious concern is about the reliability of the response made by grant recipients. It follows that a considerable measure of uncertainty must attach to the judgement made by SQW.

3.2.60 The assessment of displacement is even more difficult. SQW approached this by asking respondents to estimate *the proportion of visitors that visited the area specifically as a result of the project*. On average, those that were able to respond to the question (49) suggested that 36% of visitors would not have visited the area had the project not taken place.

3.2.61 This indicates that around 65% of visitors would have been in the area (and spending money) anyway. SQW noted that “this is a fairly rough estimate but, given the complexities involved in assessing displacement, it is the best information available.”

3.2.62 SQW then proceeded to make an overall judgement:

*3.2.63 At a Welsh level, displacement will be higher than this, as we are effectively estimating the proportion of visitors and income that is new to Wales as a result of the support. We have estimated that displacement would be around 75%, but given the synergies associated with improvements in product quality over time, we have allowed this to fall to 60% in the longer term.*²⁹

3.2.64 Note that no allowance was made for displacement from the rest of the UK, even if the locations affected were assisted areas. This is contrary to Green Book [and accounting officer] guidance.

3.2.65 As far as can be established, this assessment of displacement by SQW is a largely subjective judgement. This is not a criticism, given the inherent difficulties in this area. But it does indicate the great uncertainty that attaches to the assessment of displacement

²⁸ “Evaluation of the Wales Tourist Board Investment Schemes – Final Report”, November 2000, Executive Summary, page iv.

²⁹ Op cit, page 39.

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3.2.66 SQW make a further adjustment to allow for the multiplier effects in terms of jobs created in the local supply chain. The multiplier used, 1.5, is supported both on the basis of information supplied as part of the survey and because it is consistent with the results of other studies.

3.2.67 "In total, between 1994/95 and 1999/00, we estimate that the WTB investment schemes [including amenity projects] have supported between 1,000 and 1,600 net FTE jobs in the Welsh economy at a total cost of £20.2m in assistance. This equates to a cost per job of between £12,200 and £19,500. In our view this represents a good performance in terms of economic impact".

SQW conclude:

3.2.68 No assessment was made of the longevity of the jobs created. Supposing the jobs created last ten years (a frequently adopted standard), the figures suggest that the performance of the investment support schemes in terms of economic impact may be inferior to that achieved by UK marketing. However, more research is needed on this.

3.2.69 Furthermore, the considerable measure of uncertainty associated with the estimates of additonicity and displacement (and, to an extent, the multiplier) should be reiterated.

3.2.70 It should again be noted that no allowance is made for crowding-out, which is likely to occur in so far as job creation has taken place in areas where the labour market is relatively tight.

3.2.71 Finally, SQW make very important observations on the generation of economic benefit. These merit repetition:

Economic impact is generated by a number of criteria:

- *projects should maximise additionality; the analysis suggests that projects undertaken by smaller businesses are more likely to be additional but that the impacts also tend to be smaller;*
- *projects should minimise displacement; this means supporting projects that will bring new business to Wales. For example*
 - *major visitor attractions and possibly activity-related projects that attract new markets/visitors;*
 - *projects that specifically target new markets, for example internet marketing;*
 - *projects that are marketed outside Wales rather than local visitors.*

3.2.72 It seems quite likely that the apparent greater additionality associated with smaller projects is offset by increased displacement.

3.2.73 *In summary, the most recent evaluation of the WTB's investment support scheme concluded that it exhibited a good performance in terms of economic impact. However, this conclusion was dependent upon critical*

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assumptions about additionality and displacement, both of which are open to question. It seems likely that major benefits are most likely for larger projects targeting new markets, located where labour markets are less tight. These conclusions are taken into account in the recommendations on options for the future.

Recommendation: *The Welsh Assembly Government and WTB consider the scope for further research to refine estimates of net economic impact, particularly in terms of assessing displacement and crowding-out. Future estimates of economic impact should be expressed in terms of ranges, reflecting the inherent uncertainties in this area.*

Recommendation: *In future evaluation studies, displacement should be estimated both gross and net of displacement from assisted areas, and from other UK countries.*

Rugby World Cup

3.2.74 An evaluation of the impact of the 1999 Rugby World Cup was carried out for the WTB by Segal Quince Wickstead (SQW). The wider economic effects were assessed for SQW by the Welsh Economy Research Unit (WERU) at Cardiff Business School.

3.2.75 Calvin Jones of WERU further considered the economic impact in a paper published in the International Journal of Tourism Research³⁰.

3.2.76 Jones noted the very positive impact of the 1999 Rugby World Cup on the image of Wales. There were also beneficial effects in terms of the infrastructure legacy, and potential benefits for the local skills base, and in particular, the capacity for organising major events. However, Jones concluded:

"It is clear, however, that the economic benefits to Wales and Cardiff of hosting the event are as yet uncertain. Little or no profit accrued from gate receipts, much spectator expenditure occurred outside the Principality, and the longer-term benefits are at least open to question³¹.

3.2.77 It is obviously crucial that full and impartial evaluations are carried out of such events, and the WTB are to be commended for ensuring the timely production of a report on the Rugby World Cup. This precedent should be followed for future "mega-events", including, of course, the Ryder Cup.

³⁰ Mega-events and Host-Region Impacts: Determining the True Worth of the 1999 Rugby World Cup, Calvin Jones, International Journal of Tourism Research, 3, 241-251 (2001).

³¹ Op cit, page 250.

Evaluation Programme

3.2.78 It has already been noted that a systematic research and evaluation programme is a crucial foundation for evidence-based and cost-effective activity. It also provides evidence critical to the assessment of the effectiveness of the WTB and to decisions about by the Welsh Assembly Government about resource allocation.

3.2.79 There may be some tension between these objectives, and a need for a mechanism whereby the Welsh Assembly Government's interests are represented in the determination of the programme.

Recommendation: *WTB should consider the scope for an expanded research and evaluation programme and should agree its research and evaluation programme with the Welsh Assembly Government as part of the corporate planning process. Welsh Assembly Government should be represented on the steering groups of evaluations with wider implications.*

Corporate and Business Planning

3.2.80 The performance management framework for WTB is integrated with the business planning cycle. The remit letter (see section 1.1) provides guidance on the Welsh Assembly Government's strategic aims and key themes, and sets targets (latest targets are shown in Table 12). This is then reflected in the WTB's corporate plan, annual business plan and in its internal planning processes.

3.2.81 WTB reports to the Welsh Assembly Government on its progress in its Annual Report.

3.2.82 In previous years, the process has not always been carried out in a timely way. However, matters have improved recently, and the planning cycle for the 2002/03 financial year is reasonably well advanced.

3.2.83 During summer 2001, a draft corporate plan was prepared and considered by the WTB board. This formed the basis of the bid to the Welsh Assembly Government for funding for 2002/03. In line with guidance, the WTB based their bid on previously announced indicative funding levels.

3.2.84 In some previous years, the corporate plan and bidding process has not been based upon a realistic assessment of likely resources, but rather as part of a process of negotiation. Such an approach is likely to inhibit effective planning and the efficient use of resources.

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3.2.85 The level of funding was announced by the Welsh Assembly Government in November, with the Remit Letter being issued in February 2002.

3.2.86 The final version of the corporate plan, reflecting the guidance and funding set out in the Remit Letter, was considered by the board in March 2002.

3.2.87 In parallel with the preparation of the final version of the corporate plan, internal budget planning takes place. In February, WTB divisions made proposals to meet the objectives set out in the draft corporate plan and the targets set out in the remit letter. Bids for funds were considered and reviewed through a series of bilateral meetings between the Chief Executive (assisted by the Finance Director) and Divisional Directors.

3.2.88 Agreement at executive level is expected by the end of March, with review and agreement by the board planned for the end of April. However, board members have been involved in the process of budget preparation.

3.2.89 Internal performance management is currently under review. In the past, performance against targets has been monitored on a half-yearly basis, in line with the bi-annual report to the Economic Development Committee. The Chief Executive is currently considering a move towards monthly monitoring of performance against targets.

3.2.90 Financial performance against budget is monitored by the Finance Director on a monthly basis, with variances from plan of greater than £10k triggering a report. The board reviews overall financial performance in September, December and February.

3.2.91 The Welsh Assembly Government's sponsor division monitors the financial position of the WTB on a monthly basis, with meetings taking place on a quarterly basis.

3.2.92 Governance issues are covered more fully in Stage 2 of the Quinquennial Review. But it is noted here that the efficient operation of the system is dependent upon:

- the timely issuing of Remit Letters by the Welsh Assembly Government;
- avoiding distortions in the Corporate Planning process through the use of the corporate plan as part of an unrealistic bid for funds;
- by the effective monitoring of performance against targets both by the WTB itself and by the Welsh Assembly Government.

Performance Management by Welsh Assembly Government.

3.2.93 Performance against targets is regarded as a crucial measure of WTB's success. (Current targets are set out in Table 12, and longer run performance analysed in Appendix 5.) Targets are set by the Welsh

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Assembly Government, but in practice there is a process of discussion with WTB, so that the latter has a degree of influence over the outcome.

3.2.94 Performance against targets is reported in the WTB's annual report, and in papers prepared for the twice-yearly reports to the Economic Development Committee.

3.2.95 Over the period since 1994, WTB has generally met the targets set (with some relatively minor exceptions – see Appendix 5). The issue then is to what extent this does in fact indicate good performance.

Table 13:WTB Targets 2002/03

Area	Target
Tourism Spend Contribute to an annual average increase in tourism expenditure of at least	6%
Capital Investment Leverage (WTB: total project cost)	1:5
Private sector investment	£15.5m
Total investment generated	£28m
Number of jobs created	400
Number of jobs safeguarded	100
Marketing UK marketing return on investment (return or conversion: WTB expenditure)	30:1
Overseas priority markets (return or conversion: WTB expenditure)	12:1
Promotion of Destination Management System Businesses using DMS (maintaining data)	5,000
Businesses using DMS for e-commerce/bookings	1,000
Star Quality Grading Scheme Proportion of accommodation businesses graded at 3 stars or above to increase from 74%	76%

3.2.96 Reliance on a system of targets raises a number of difficult problems. These will be illustrated by review each of the targets in turn.

Tourism Spend

3.2.97 A fundamental difficulty here is that tourism spending is not necessarily good-in-itself. It *is* good, if it leads to an increase in the well-being of the population. And this is likely to be the case so long as any off-setting environmental, social or cultural dis-benefits are not excessive, and that any displacement of other kinds of spending is small.

3.2.98 To take one example, it would not obviously be a good thing if the WTB acted to increase the value of tourism day visits of Welsh people within Wales, if this were simply at the expense of consumption spending within Wales.

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3.2.99 However, such problems might be set aside on the basis that, at least across a large range of probably circumstances, an increase in tourism spending will lead to an increase in welfare.

3.2.100 But there are further difficulties with the target. The WTB is expected to “contribute” to an increase in tourism spend. The problem here is that contribution is a matter of degree. It follows that tourism spending might increase more than the target rate, with the WTB making a minimal contribution to the increase, or by less than the target, with the WTB making a major contribution.

3.2.101 The point is that tourism spending is, to a large extent, outside WTB control.

3.2.102 The same issue arises in the setting of the target itself. In determining a target of 6%, an implicit judgement is presumably being made about what would happen in the absence of WTB action. But it is very difficult to know on what basis such a judgement could be made. At the very least, a degree of expertise similar to that possessed by the WTB itself would be needed to set a target that was simultaneously realistic yet challenging.

Capital Investment

3.2.103 Here the targets, relating to leverage, levels of investment and numbers of jobs created relative to spending can reasonably be based upon experience gained, both in the tourism sectors and elsewhere. Again, however, the critical issue is the level of expertise and judgement that is required in order to set appropriate targets.

3.2.104 A particular issue surrounds the use of “jobs safeguarded”. The problem here is that safeguarding is a matter of degree, and therefore a single number is potentially misleading. It may be better to move to a target set in terms of jobs retained (ie jobs that would otherwise have definitely been lost, or in terms of some kind of weighted average figure, reflecting an assessment of the probabilities of job losses).

Marketing

3.2.105 The paradox between target returns on investment (ROIs) which diverge markedly between UK and overseas markets has already been noted. On the targets as set, it might be expected that total visitor spending would be increased by re-allocating spending away from overseas marketing and towards UK marketing. If the resolution of the paradox is in terms of the longer-term nature of overseas marketing, one might still expect to see convergence over time.

3.2.106 This, together with the difficulty of assessing the reasonableness of the individual targets set, once more reinforces the importance of expertise in setting appropriate targets.

Promotion of Destination Management System

3.2.107 The target here is relatively straightforward, but again, reasonableness must be a matter of expert judgement.

Star Quality Grading Scheme

3.2.108 There is a major difficulty with this target. Since the WTB manages the grading scheme, it could clearly achieve any target simply by varying standards. This is not to suggest any duplicity on the part of the WTB, but merely to point to what is clearly a technical defect of the target in question.

Assessment of Performance

3.2.109 It is clear from the discussion above that the assessment of WTB performance is not a straightforward task.

3.2.120 In general, the achievement of targets is only worthwhile if the targets are based on appropriate indicators and are set at appropriate levels.

3.2.121 In practice, the choice of indicators on which to base targets will always have to reflect pragmatic considerations. It is probably inevitable that the indicators chosen will not reflect fully the outcomes of ultimate policy interest, and will be subject to influences outside the WTB's control. The limitations noted above in respect of the existing targets do not therefore demonstrate that they should be abandoned.

3.2.122 However, the limitations identified in respect of the existing targets do indicate that the setting of challenging but achievable targets requires informed judgement. So does the assessment of performance against targets, since it cannot be assumed that missing a target reflects poor performance.

3.2.123 This all suggests that there may be a case for more active performance management by the Welsh Assembly Government of the WTB (and probably other ASPBs) than has hitherto been the case. This issue is taken up in the next chapter.

3.2.124 An interim improvement in practice might be achieved by the WTB producing an annual performance report, including outcomes against targets, which was subject to review by their auditors.

3.2.125 *In summary, the performance management system for the WTB consists mainly in the provision by the Welsh Assembly Government of strategic guidance in the remit letter, and the monitoring of performance against targets. However, the targets employed are – probably in common with all targets – imperfect guides to performance. The setting of effective targets, and the interpretation of outcomes, which requires an understanding of context, are specialised tasks. There are grounds for proposing a*

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strengthening of institutional arrangements for carrying out these tasks. This is considered further under Options.

Recommendation: *WTB produces an audited annual performance report.*

Recommendationi: *Welsh Assembly Government considers the future role of the target for jobs safeguarded.*

Strategic Relationships

3.2.126 The consultation process highlighted other issues in respect of the WTB's strategic relationships.

3.2.127 As already noted, sections of the trade felt that their views were not taken into account by the WTB, and that they were not adequately represented in the decision-making process.

3.2.128 Partner organisations, particularly local authorities, and other ASPBs, did not feel that they were always party to genuine consultation prior to major changes that affected them.

3.2.129 In the reviewer's opinion, the views expressed by these bodies do not point to the need for structural change. They are, however, drawn to the attention of the WTB in the expectation that they will be addressed appropriately.

3.2.130 Several consultees argued that the relationship between the WTB and the Assembly was complex and confusing. Multiple linkages exist between the WTB (officials, board, and chairman) and Assembly (Welsh Assembly Government - Ministers and officials, Economic Development Committee, and individual AMs). Furthermore, the situation created the potential for considerable diversion of WTB management time and effort.

3.2.131 However, this reflects a much more general issue in respect of the relationship between the Assembly, Welsh Assembly Government and ASPBs. This issue is currently under consideration by the Welsh Assembly Government, and is therefore not considered further in this report.

Operation of Board.

3.2.132 A number of consultees expressed concerns at the operation of the board itself. Particularly following the changes which led to less frequent meetings of the full board, it was felt that the opportunities for introducing challenge to high-level strategy had been reduced (although the options for challenge to board executives had been increased in certain respects). Recent changes have further altered board processes, and it would be wise to review their impact over the next few months. Therefore, this issue will be taken up as part of stage 2 of the review.

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3.2.133 Several interviewees drew attention to the nature of the papers presented to the board, which were regarded as sometimes insufficiently strategic, and indigestible. This point is brought to the attention of the WTB.

Part 3: Effectiveness

3.3 Options for delivery of functions

Introduction

3.3.1 One of the key purposes of a quinquennial review to ask fundamental questions about the best methods for delivering the functions determined by the review to be necessary.

3.3.2 The approach here has been to attempt to review systematically all feasible options, including those that at first sight may appear unattractive, drawing on the evidence assembled in the preceding chapters, and considering in particular options for addressing the issues raised during the consultation process.

3.3.3 The process inevitably involves a considerable measure of judgement. The reviewer has attempted to promote transparency by setting out explicit criteria for the judgements made.

3.3.4 In several areas, the options raise issues of wider economic policy and delivery. In such areas, it is not appropriate for recommendations to be made on the basis of an individual quinquennial review, and the approach has been to set out the issues, rather than recommend a particular way forward.

Arrangements Elsewhere

3.3.5 As part of research for the review, an analysis has been carried out of the functions performed by national and regional tourist organisations within the UK and abroad, and of the organisational structures adopted.

3.3.6 Whilst it is fairly straightforward to obtain a broad picture, in some cases it is much more difficult to achieve accuracy in respect of the details. In part this is because of the fact that arrangements in many countries are in a state of flux. In other cases, services provided to the tourist industry may be dispersed amongst a wide variety of providers. And sometimes countries do not wish to provide information which they think might be beneficial to a competitor.

3.3.7 Most of these obstacles could be overcome, at a cost. In the context of this review, a judgement has had to be made about the likely balance of costs and benefits in pursuing further information.

3.3.8 The broad picture that emerges is one where marketing and promotion are a universal concern of tourist offices, and generally tend to be the overwhelmingly dominant function. The activities encompassed can include:

- leadership of, or participation in, marketing initiatives, including support with literature production and distribution;
- dissemination of research and market intelligence data;

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- consumer assistance and protection, including:
 - quality assurance schemes;
 - complaint handling;
 - information and reservation systems;
 - provision of information services and centres;
- representation in markets of origin, usually through a network of tourist offices;
- support for new products;
- supporting activities, including:
 - organisation and participation of workshops and trade shows;
 - production of travel trade manuals;
 - organisation of familiarisation trips;
 - general advisory services for the industry.

3.3.9 Other functions are undertaken to a varying degree by tourist offices. These include:

- undertaking research, the preparation of statistics and planning;
- development of tourist facilities;
- training;
- regulation of tourist enterprises and travel;
- international co-operation in tourism.

3.3.10 Support to tourism businesses to develop facilities and improve services, including financial support, may also be provided by other agencies.

3.3.11 Across the UK, the most significant variations concern:

- the limited activity at national level in England (though this is likely to change to some extent, with English Tourism Council about to undertake direct marketing of England for the first time);
- the continuation, in Wales, of a system of grants intended specifically for tourism business ("section 4 grants").

3.3.12 It should be noted that, whilst grants intended specifically for tourism businesses have generally been discontinued in the rest of GB, such businesses of course remain eligible for support under the standard range of schemes available to all businesses. (In some parts of Scotland, local enterprise companies do still offer grants specifically tailored to the needs of tourism businesses, but overall it is clear that the funding available for support towards physical development is decreasing.)

3.3.13 In both Scotland and (under new arrangements operational from 1 April 2002) Northern Ireland, business advice and support to tourism businesses is the responsibility of the general economic development agency.

3.3.14 In the Republic of Ireland, the Irish Tourist Board, Bord Failte, provides targeted support to certain sectors of the industry. For the year 2002, targeted areas include established tourism areas (where the focus is on visitor

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and environmental management), developing tourism areas (support to major tourist attractions, and clusters of such attractions) and special interest activity areas (encouragement of special interest pursuits).

Criteria

3.3.15 The key criteria used to evaluate options for organisational structures in Wales are set out below. A structure is rated more highly the more it:

- creates *incentives* to respect the basic rationale and act in the wider public interest;
- encourages effective *monitoring* and *performance management*;
- avoids *unnecessary change* and disruption;
- promotes *good relations and with private sector*;
- promote *good relations with other public sector bodies*;
- is likely to encourage an *evidence-based approach* (including arrangements for a challenge function) ;
- is likely to be *cost effective*.

Major Options

3.3.16 As a first step, broad options for delivering the key functions were considered. The options, together with an assessment of their respective strengths and weaknesses are summarised in Table 14.

Table 14: Delivery of Functions – High Level Options

Option	Advantages	Disadvantages
"Do nothing": Cease delivery	Saves money	<ul style="list-style-type: none">• Does not address key market failures generally recognised by governments across the world as amenable to intervention.• Risk of reduced prosperity.
Option 1: Retain WTB	<ul style="list-style-type: none">• Maintains a unified centre of expertise on the tourist sector.• ASPB ethos facilitates relations with private sector.• Independent, non-executive board can promote effective challenge, introduce additional expertise, and encourage a focus on core function.• Retention of existing arrangements minimises disruption at a crucial time for delivery of services.	<ul style="list-style-type: none">• May encourage over-identification with the industry.• Private sector ethos may obstruct relations with public sector.• Possible loss of economies in central running costs.

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Option 2: Transfer all functions to WDA	<ul style="list-style-type: none"> • Could promote a more consistent approach across sectors, with resources allocated to maximum benefit. • Could help in providing unified business services and avoiding duplication 	<ul style="list-style-type: none"> • May be more difficult to market a definite tourism product • May be concerns about manageability of expanded WDA • May be less conducive to effective monitoring and performance management than current arrangements.
Option 3: Change to “agency” status	<ul style="list-style-type: none"> • Clarifies roles and responsibilities vis-à-vis the Assembly. 	<ul style="list-style-type: none"> • Risks reduction in challenge function and loss of expertise. • May lead to reduced industry involvement • Loss of independence may reduce focus on core functions. • May be less conducive to effective monitoring and performance management than current arrangements
Option 4: Direct delivery by Assembly	<ul style="list-style-type: none"> • Clarifies roles and responsibilities vis-à-vis the Assembly. 	<ul style="list-style-type: none"> • Risks loss of specialist expertise. • Risks loss of “ pro-private sector” ethos, with reduced effectiveness.
Option 5: Delivery by local authorities		<ul style="list-style-type: none"> • Very difficult to envisage practical arrangements for delivery of pan-Wales functions.
Option 6: Delivery by private sector	<ul style="list-style-type: none"> • Contracting process might lead to greater efficiency and improved incentives. 	<ul style="list-style-type: none"> • Difficult to write a contract that would ensure the private sector respected the core rationale, particularly in respect on acting in wider public interest. • Possible reduction in accountability. • Lack of successful precedents.

3.3.17 As already noted, the overwhelming weight of the response to the consultation was the retention of the WTB broadly as currently constituted. In the reviewer’s opinion, the balance of the arguments as set out in Table 14 is clearly in accordance with this view, and it is therefore recommended that the delivery of the functions should continue to lie with a body constituted broadly along the lines of the existing WTB.

3.3.18 However, it should be recognised that all institutional arrangements represent a compromise between various objectives, and that granting any organisation a permanent “franchise” can be bad for incentives. It will be appropriate to re-open the issue of the delivery mechanism as the tourist industry, and the Welsh economy as a whole, evolves.

3.3.19 Notwithstanding this general conclusion, there remains considerable scope for changes to the balance of functions delivered by the WTB (and other bodies). These are considered next.

3.3.20 In summary, review of a wide range of arguments, and consideration of solutions adopted elsewhere, suggests that there are no compelling grounds to abolish the WTB or replace it with an organisation of a fundamentally different nature. The case against radical change is particularly

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strong at the present time, in view of the WTB's involvement with the Objective One programme. It may be appropriate to consider more major changes in greater depth at the time of the next review.

Recommendation: *over the period until the next review, the Wales Tourist Board continues in existence, constituted broadly as at present.*

Sub-Options

Option 7: Core WTB.

3.3.21 This option would see the WTB re-focusing, over a period of time, on a limited range of core functions, with marketing and research probably comprising the key activities.

3.3.22 A range of sub-options is possible, but major issues are likely to surround the transfer of business advice and general support, and/or the provision of investment support, to other bodies. These issues are considered separately, below.

3.3.23 In general, however, the principal advantages of a more restricted remit could include:

- Increased strategic focus for WTB.
- Where services are provided by non-sectoral bodies, this may lead to greater cost-effectiveness, through encouraging a more consistent approach.
- Might reduce potential pressures on the WTB to deflect from its wider public interest responsibilities.
- There may be particular merits in decisions on the provision of financial assistance lying with an organisation not involved in supporting, and in some cases helping to promote, particular proposals. (This argument has been accepted in the case of the provision of RSA, where direct responsibility is retained by the Welsh Assembly Government.)
- Economies of scale might be gained by integrating certain functions, particularly the provision of financial support.
- May reduce the risk of duplication, and of confusion for businesses.

3.3.24 The disadvantages could include:

- The loss of continuity and disruption at a critical time in the delivery of Objective 1 and other programmes (a key issue).
- Possible loss of synergies between marketing and product development activities, for instance in respect of the quality agenda (but note the consultation responses to the effect that such integration is in any case limited).
- Possible loss of expertise.
- Possible wider issues about the merits of further increasing the remit of the bodies which receive any transferred functions,

Business Advice and General Support

3.3.25 A number of consultees have referred to the potential for confusion and duplication in the provision of business services. This is well-trodden ground, both in Wales and the rest of the UK.

3.3.26 The arrangements on business advice and support have been subject to recent revision, and the role of the WTB now seems clear in principle. Its graders/business advisers are well placed to provide information on specifically tourist-related aspects of business. They are also in a good position to act as a signpost, directing people to services provided by others (and this is likely to be a significant role, as in many respects the issues faced by tourism businesses are the same as those faced in other sectors). WTB advisers are integrated into the Business Connect network.

3.3.27 Whilst there may be issues of communication here, therefore, there do not seem to be issues of principle which require organisational change. It would be particularly disruptive to introduce further change at present. But it will be important to evaluate fully the new arrangements after an appropriate period.

Recommendation: *WTB, in partnership with the Welsh Assembly Government, should ensure that there is a full an independent evaluation of the effectiveness of the new arrangements for the provision of business advice to the tourist sector. This may be most effective if combined with a review of the grading service. This evaluation should take place in the next three years (see below).*

Investment Support

3.3.28 It has already been noted that it is difficult to determine any case for targeting investment support on the tourist industry. The rationale for support to tourist businesses is similar in principle to that for businesses in any sector.

3.3.29 In December 2001, the Welsh Assembly Government accepted the recommendations of a Task and Finish Group established to review the provision of enterprise support grants in Wales. One of the key objectives of the review was to identify gaps and overlaps, and recommend options for remedying these deficiencies.

3.3.30 Four main types of scheme were proposed by the Task and Finish Group, to cover:

- Start-ups, provided by local authorities;
- Investment aid, divided into five areas:
 - Grants above £50,000: Regional Selective Assistance (RSA), provided by the Welsh Assembly Government;
 - Grants between £5,000 and £50,000: streamlined version of RSA for SMEs, to be provided by the Welsh Assembly

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- Government, and available outside assisted (target) areas at lower grant rates;
- Grants below £5,000, provided by local authorities;
- Loans, administered by Finance Wales;
- Sectoral grants
- R&D aid, a new scheme, but based on existing programmes, to be run by WDA;
- Investment-linked training aid, provided by ELWa.

3.3.31 Investment support provided by the WTB falls into the category of sectoral grants. The report recommended that these be reviewed by the relevant bodies.

3.3.32 In view of the analysis presented in this report, and of apparent overlap with the other investment aid schemes detailed above, it would be an opportune time to conduct such a review.

3.3.33 It should of course be stressed that such a review would not be seeking to challenge the principle of the provision of investment aid to tourism businesses³². The issue at stake is whether such aid could be provided more cost-effectively through the other schemes set out above (perhaps if suitably amended).

3.3.34 On the face of it, the provision of investment support to tourism businesses through non-sectoral schemes would have a number of compelling advantages, including the promotion of a consistent approach across sectors (with an expectation that this would result in maximum benefits per pound spent).

3.3.35 As has already been noted, it might be argued that there is a risk of a loss of expertise in helping to bring forward and assess suitable projects. There may also be a risk of a reduced capacity for rapid and flexible response to specific incidents, and the general approbation of WTB's response to the effects of Foot and Mouth disease has already been noted.

3.3.36 One of the functions of the review would be to test such claims, and assess the scope for mitigating any such negative effects.

Recommendation: *The Welsh Assembly Government should review the case for continuing with "Section 4" grants in the light of the range of non-sectoral assistance available to tourism businesses.*

Option 7: Re-focusing of Grant Provision

3.3.37 Irrespective of whether investment support is sectorally based, the rationale for the provision of such support aimed to tourism-related businesses outside areas suffering from a general deficiency in economic

³² Similarly, the "amenity" projects currently funded under Section 4 could be funded either by local authorities or the WDA as regeneration schemes.

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activity (“target areas”) appears generally less than strong. In the UK, the provision of such support appears unique to Wales. It risks leading to high levels of displacement and/or crowding-out.

3.3.38 Even within target areas, the rationale for support needs careful elucidation. Provided there is good information on consumer needs (and there is a clear general rationale for intervention in this respect), the level of quality is likely to be market-driven. Financial support for a level of quality above that supported by the market is may lead to a situation where an initially higher level of quality is eroded, so that, in the absence of further support, the initial equilibrium re-establishes itself.

3.3.39 A strong case for financial support may exist where a scheme, or group of schemes, is of such a scale or nature as to change the fundamental perception of a location by potential visitors. This would minimise displacement.

3.3.40 This points to the focusing of financial support on a smaller number of “significant” projects (or integrated clusters of projects³³) that exhibit large-scale benefits to the wider economy.

3.3.41 Such an approach would be consistent with the conclusions of the most recent evaluation of investment support, described in chapter 3.1, and may be justified whether or not the funding mechanism for support to tourism remains that of Section 4 grants.

3.3.42 Another consideration is raised by an important comment made during the consultation process, when the concern was raised that the provision of a large number of relatively small grants risked created both a divisive spirit within the industry and a “dependency culture”. Apart from being harmful to the industry directly, such effects could increase inappropriate pressures on the WTB and distract it from its core functions.

3.3.43 Again, this option raises issues beyond the scope of the review.

Recommendation: *The Welsh Assembly Government, WTB and/or other grant providing bodies should consider the scope for introducing within the grant programme a greater focus on major projects (or integrated clusters of smaller projects) located in areas where there is a general deficiency of economic activity.*

Option 8: Joint Board with WDA

3.3.43 A further option which might facilitate the creation of a more strategic investment programme would be to establish some kind of formal link between the grant-giving activities of the Welsh Assembly Government, WTB and WDA. One possibility would be a joint board, managing a pooled budget for major tourism related projects. (This would reflect the reality that, for major

³³ The focusing of support on 16 Tourism Growth Areas represents a step in this direction.

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projects of the kind advocated above, the majority of government financial support already comes directly from the Welsh Assembly Government, or from the WDA.)

3.3.44 The main advantage of such an arrangement is that it could help promote the more strategic approach advocated above. The main disadvantage may be an increase in complexity of the arrangements. It is clear that further work is needed to develop this option. Whether it is worth undertaking such work depends upon the response of the Welsh Assembly Government to earlier recommendations concerning arrangements for the future provision of investment support to the tourist sector.

Recommendation: *In the event that a sectorally-based investment support scheme for tourism is retained, it is recommended that the Welsh Assembly Government considers further the case for establishing more formal links between the financial support schemes of the WTB and, the Welsh Assembly Government, and the WDA. This might include a pooled and jointly managed budget.*

Option 9: Performance Management

3.3.45 In chapter 3.2 the limitations of the present approach to performance management of the WTB were discussed. The principal problems were:

- The difficulty of setting meaningful outcome targets in the absence of good information on what would happen to outcomes in the absence of WTB action. (Or, in other words, the limited, and poorly understood, influence of WTB action on ultimate outcomes.)
- Measurement problems.
- The possible distortions targets introduce to organisational behaviour.

3.3.46 This suggests that a “hands-off”, target-based approach faces serious obstacles. There is therefore a strong case for developing stronger monitoring capacity within the Welsh Assembly Government. The objective would be to help the Welsh Assembly Government act as a more “intelligent customer”, providing challenge where appropriate, based on an understanding of the economic context and an awareness of the statistical information base.

3.3.47 One model might be for the creation of a unit to assist in the monitoring of all ASPBs, since a common (specialist) skill set may be required for monitoring across the bodies. Another model might be for this work to be subsumed within that of the new Research and Evaluation Unit (but this would of course be dependent on the resources available to that unit).

3.3.48 None of this should be interpreted as in any way critical of individuals currently involved in the sponsorship of the WTB. It is simply that the nature of the task is such that there may be a need for supplementary activity, including the use of specialist skills.

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3.3.49 It might be that a model of this kind could develop into a superior alternative to the system of discrete Quinquennial Reviews. This system is to some extent dependent on the quality of pre-existing evaluation studies, and may suffer from the difficulty of acquiring sufficient contextual understanding over a relatively short period of time.

Recommendation: *The Welsh Assembly Government should consider options for strengthening the WTB's performance management regime, including as one option the creation of dedicated specialist monitoring capacity within the Assembly.*

Provision of Grading Service

3.3.50 There may be an issue of whether it is appropriate to combine a grading function with the provision of business advice. For example, it is possible that a business could feel pushed into doing things that did not make business sense. However, the new arrangements have been introduced only recently, and, given the fact the few concerns have been expressed so far, it would probably not be appropriate to consider further changes at this stage.

3.3.51 Similar considerations apply to the decision to bring the grading service back in-house. A number of consultees expressed reservations about this, arguing that it conflicted with the WTB's stated intention of becoming more strategic, and less involved in delivery and in detail. Concerns were also expressed about whether an in-house grading team would be seen to be impartial.

3.3.52 However, it would be unnecessarily disruptive to re-open the issue at this stage. It is, however, crucial that after a suitable period, perhaps two years, the grading and advice service should be subject to a full and independent evaluation. The WTB should ensure that it now has in place arrangements, for example in respect of the collection of relevant data, to facilitate such an evaluation. Furthermore, the WTB should re-consider, as part of the evaluation process, whether the provision of such a service in-house accords with its aim of fulfilling a more strategic role.

Recommendation: *WTB ensures that it has in place arrangements to facilitate a full and independent evaluation of the grading and advice service. This evaluation should take place in the next three years.*

3.3.53 A more specific issue arises in respect of the grading system. The quality grading system in Wales is similar to that in Scotland, but differs from that in England. Research is needed to establish the effectiveness of the Welsh system (and the alternatives), including for example, consumer awareness.

Recommendation: *WTB should consider research on the effectiveness of the grading system, particularly focusing on the value to tourists.*

Regional Tourism Partnerships

3.3.54 The other controversial organisational change introduced recently is the introduction of Regional Tourism Partnerships (RTPs). This raises similar issues to the decision to bring the grading service back in-house. It would be disruptive to bring the new arrangements into doubt at this stage, but full evaluation will be needed in due course.

Recommendation: *WTB should ensure that it has in place arrangements to facilitate a full and independent evaluation of the RTPs. This evaluation should take place in the next three years.*

Overseas Marketing

3.3.55 Several trade consultees expressed concern about the marketing of Wales overseas, and questioned whether Wales was getting its fair share of effort on the part of the British Tourist Authority (BTA). Staff of the WTB raised similar concerns, and suggested an option under which funding for the BTA would be devolved to the Welsh Assembly Government, which, in partnership with the WTB, could then direct the BTA's marketing work in respect of Wales.

3.3.56 This raises difficult issues. There is the potential for Wales to gain benefits from a change of this kind. But there are also risks. Most overseas visitors to Wales come as part of a trip to Britain. Weakening the British brand, through more aggressive direct promotion of England (and Scotland) might not be entirely in the interests of tourism businesses in Wales.

3.3.57 However, the creation of a new Welsh image, spanning the work of the Welsh Assembly Government and all ASBPs, strengthens the case for more direct control over the image presented in BTA publicity.

3.3.58 It should also be noted that circumstances in England are themselves in a state of flux, with a strong possibility that the English Tourism Council may be given powers to market England directly. This could change the whole context for the operation of the BTA, and prompt a much broader review.

Recommendation: *The Welsh Assembly Government should consider further the case for and against seeking devolution of funding for the BTA, in the light of the emerging position in respect of marketing the "England brand".*

Research

3.3.59 The WTB undertakes a systematic research programme, and benefits from sharing research results with other UK tourist organisations. However,

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the WTB's own programme is inevitably constrained by resource availability³⁴. And it is not clear that all major recent policy changes have been fully evidence-based. The decision to bring grading back in-house, for instance, does not seem to have been based on a systematic examination of options.

3.3.60 The prioritisation of research is matter for the WTB in partnership with the Welsh Assembly Government, and recommendations on this have already been made in section [T]. However, there are several areas where greater priority might be appropriate.

3.3.61 First, the difficulty of making an overall assessment of the effectiveness of the WTB has been repeatedly noted. It might be possible, by asking supplementary questions as part of the UK travel survey, to gain an indication of the overall importance of WTB activities in influencing patterns of tourism. This would be extremely valuable for future assessments of WTB cost-effectiveness.

3.3.62 Second, there is considerable debate about the merits of more direct marketing of Wales overseas, and about the relative weight that should be given to the characteristics of the product in those markets. There may be scope to expand research amongst existing overseas visitors to Britain who visit Wales, particularly by investigating what would be needed in order for them to stay longer. Such research could better inform judgements about what would be most effective in lengthening visitors' stays in Wales, and what (if anything) might make Wales a first choice destination, rather than an excursion during a British visit.

3.3.63 Third, there may also be scope to extend research into the effectiveness of alternative strategies for marketing Wales in the UK market, and in particular for assessing the relative weight that should be placed on the Wales brand compared with sub-Wales tourist destinations.

Recommendation: *The WTB should consider the scope for extending its research programme to investigate the overall impact of the WTB on the choice of visitors to come to Wales.*

Recommendation: *The WTB should examine the scope for extending the use of research amongst existing overseas visitors to identify the opportunities for growing this market, and for undertaking research to inform the relative weight to be given to Wales and sub-Wales brands in the UK market.*

Relationships with the Trade

3.3.64 A significant number of consultees argued that the WTB was insufficiently responsive to the views of the trade. As discussed in the section on Rationale, this raises difficult issues, as it is not the function of the WTB simply to respond to industry demands or to "represent the industry".

³⁴ The creation of the new Economic Research and Evaluation Unit by the Welsh Assembly Government should create additional opportunities for research.

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However, it is clear that the WTB can benefit from effective and informed challenge. And many consultees expressed appreciation of changes to the membership of the board over recent years, indicating that they believed they had resulted in more effective policy. Furthermore, the new RTPs, which include extensive trade membership, are in their infancy. If successful, these could go a long way towards addressing concerns.

3.3.65 A specific source of dissatisfaction raised by consultees was the potential for the electoral arrangements to lead to unbalanced regional trade membership of the RTPs, with a resulting failure to engage with the industry in all parts of the area covered.

Recommendation: *In appointing board members, the Welsh Assembly Government should continue to recognise the need for the presence of members with wide, and practical, experience of the tourist trade.*

Recommendation: *The Welsh Assembly Government should consider the option of seeking nominations for board membership from the Regional Tourism Partnerships. This would probably require an expanded board, and therefore changes to legislation.*

Recommendation: *WTB should consider whether changes should be made to the arrangements for trade membership of the RTPs to ensure a broader regional balance.*

3.3.66 A number of consultees expressed concern about the operation of the board itself, citing a lack of transparency, with some alleging that procedures adopted in year 2001 reduced the checks and balances in the system. In particular, it was noted that, whilst specialist boards may increase the challenge to, and scrutiny of, board executives, it may result in reduced challenge to high-level strategy. However, further changes to board procedures have recently been introduced³⁵, and may have changed the position. In any case, this is primarily an issue for stage 2 of the review, and will be considered at that stage.

Tourist Information Centres

3.3.67 One consultee expressed concern about the standard of service at some Tourist Information Centres (TICs), and queried whether there were sufficient incentives for TICs to reflect the interests of businesses outside their areas of responsibility. However, there was no general expression concern on these matters, and no specific evidence of shortcomings. Radical options might include the direct provision by the WTB of TICs, but this would go against the WTB's own presumption in favour of focusing on strategic matters. In the absence of evidence of significant problems with the present arrangements, there is not a case for major change at the present time.

³⁵ Including open board meetings held without a requirement for advance notice of questions from the floor.

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List of Appendices

Appendix No.	Title
1	Terms of Reference of Quinquennial Review
2	Members of Quinquennial Review Steering Group
3	Recommendations of Previous Review
4	WTB Submission to Quinquennial Review
5	WTB Performance Against Targets

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Appendix 1

Wales Tourist Board (WTB) Quinquennial Review – Terms of Reference

Introduction

The Quinquennial Review of the Wales Tourist Board (WTB) is being undertaken in the context of the Welsh Assembly Government's published Quinquennial Review Guidelines. The Guidelines set out the process for conducting the reviews. This includes self-assessment by the sponsored body, discussion with Members of the Board and senior managers, inviting views from major stakeholders, including staff and their trade unions, partners and customers.

The Terms of Reference sets out the key questions which the Review has to address. The issues common to all reviews are identified in the Guidelines but the Terms of Reference also take account of issues specific to the WTB.

The context for the Review is the Assembly's strategic plan, *betterwales.com* and related economic documents including the ERDF Single Programming Documents and the draft National Economic Development Strategy.

The key output of the Review is a single report in three parts.

Part 1: Functions

In the light of the statutory duties of the WTB, as set out in the Tourism Acts of 1969 and 1992, the objectives of the National Assembly and models of good practice elsewhere in the UK or EU, is there a continuing need for all the functions of the WTB and, if so, is the current organisational framework for delivering those functions the most appropriate?

- What is the legal framework governing the WTB?
- Are the functions of the WTB still necessary?
- Do they need to be carried out by an Assembly Sponsored Public Body – are other options for undertaking the functions likely to be more effective?
- Is there a need to rationalise functions between the WTB and other bodies engaged in supporting businesses within the tourist industry in Wales, such as the local authorities, the WDA or other bodies?
- In particular, is there a case for reviewing the distribution of functions between the WTB and the British Tourist Authority?

Part 2: Strategic effectiveness

Are there improvements which should be made to the way in which the WTB's functions are delivered, taking account of its statutory duties and the values and

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objectives of the National Assembly, and the functioning of its relationship with the National Assembly and other public bodies? This should take account of any

independent studies, for example by the National Audit Office and the other inputs set out in the Quinquennial Review guidelines.

- What have been the main strategic achievements of the WTB since 1994; to what extent has it met its objectives; what has been its performance against targets; how does its performance benchmark in terms of outcomes and operational effectiveness with that of comparable bodies?
- How effectively has the WTB responded to the creation of the National Assembly? What form should the relationship between the Assembly and WTB take?
- How effective is the strategic planning relationship between the Assembly and the WTB, including the Assembly's strategic guidance and the WTB's arrangements for reflecting the Assembly's strategic objectives, guiding themes and values (including equal opportunities, tackling social disadvantage and sustainable development) in its planning and conduct of business? How might the strategic relationship be improved?
- How effective is the WTB's corporate planning process in providing clear strategic direction and practical focus; reflecting the Assembly's strategic objectives and the WTB's statutory functions; setting targets; allocating resources to objectives and priorities?
- Does the WTB have a robust evidential basis for its activities, and does it engage in appropriate research?
- Are the main strategic performance measures of the WTB fit for purpose in relation to its objectives and are they effective guides to performance?
- Does the WTB have an appropriate management structure; how effective is the relationship between the Board and senior managers in setting strategic direction; is there an effective mutual understanding of their respective roles in setting corporate objectives and monitoring their implementation; how might the relationship be improved?
- How effective is the WTB's partnership working; is it responsive to its partners and customers; does it communicate effectively and clearly with its major stakeholders; does it have their confidence as a body with which they can do business; are there ways in which the WTB's management of these relationships might be strengthened?
- In particular, how effective is the WTB's relationship with the BTA, and do the existing arrangements ensure that the Assembly's strategic objectives are reflected in the activities of the BTA?
- How effective is the relationship with the tourism industry? Has the recent restructuring been carried out effectively and with the confidence of stakeholders?
- How effective is the WTB in marketing Wales both inside and outside the UK, and are its activities in this area consistent with the strategies adopted by other bodies with responsibility for economic development in Wales?
- Is the WTB making appropriate use of new technology?

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- How effective has the WTB been in addressing new market opportunities? ? How has it responded to unexpected changes in circumstances, for example as a result of the outbreak of Foot and Mouth Disease?
- Are reporting arrangements adequate between the WTB and the National Assembly; does the WTB need different freedoms and flexibilities; is there sufficient public accountability for the WTB's work?

Part 3: Corporate governance review

Is the WTB managing its finances effectively and in accordance with the requirements of regularity, propriety and value-for-money? What progress has the WTB made in improving operational efficiency?

- Do the financial and managerial control arrangements between the WTB and National Assembly meet established requirements?
- Do internal and external audit reports provide confidence that the WTB is managing its finances in line with the Assembly's expectations of public bodies?
- Is the WTB managing its finances and assets effectively; are value-for-money issues, including policy and programme and project evaluations, being rigorously pursued?
- Do the WTB's procurement practices fulfil the expectations on public bodies?
- Are the WTB's running costs and staffing levels being controlled and scrutinised?
- Can useful comparisons be made with the operating costs of similar bodies?
- Does the WTB have good arrangements for monitoring the quality and efficiency of its service delivery?
- Does the WTB have a good track record and robust plans for improving efficiency; how has it responded to previous reviews of its operations, including the FMPR carried out in 1992-93?

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Appendix 2

Wales Tourist Board: Quinquennial Review

Steering Group: Membership

Steve Phillips (chairman)	-	Head of Financial Planning Division
Jonathan Price (reviewer)	-	Economic Adviser
Emyr Roberts	-	Head of Economic Policy Division
David Powell	-	Assembly Compliance Officer
Jasper Roberts	-	Head of Rural Policy Division
David Pritchard	-	Head of Economic Development
Richard Clarke	-	Financial Planning Division
Jonathan Jones	-	Chief Executive - Wales Tourist Board
Geraint James	-	Director of Finance - Wales Tourist Board

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Appendix 3 Summary of Recommendations from 1992/93 Review

Recommendations are listed below with a suggested timetable to complete implementation.

1	Major Recommendations	Proposed Completion Date
i.	The Department and the Board should agree a management statement clarifying both parties' responsibilities and the interrelationship between them (8.4.3 – 8.4.6)	Management statement in place by 30 April 1993
ii.	The Department should deliver a formal response to appropriate elements of the Board's Corporate Plan submission. Suggested areas are: a. the forward budgetary profile: b. proposed new and future initiatives and strategic developments. In preparing the response, ERP3 should consult other interested Welsh Office Divisions. There would need to be linkage with the PES cycle. (8.4.7 – 8.4.11)	Ongoing (30 September 1993 for response to 1993-94 Plan)
lii.	The Department and the Board should consider the introduction of formal annual review meetings to review progress and performance against the Corporate Plan, commencing with consideration of performance in 1992-93. The meeting should be chaired at senior level (Grade 3 is suggested) and might conveniently be held in September/October. (8.4.12)	Ongoing (September/October 1993 for 1992-93 Review)
iv.	The Department should consider whether the lack of a requirement for the approval of WTB programme or expenditure proposals (other than under the 1992 Act on Overseas Marketing) is appropriate. However, other recommended developments would appear to meet the need. (8.4.13 – 8.4.17)	31 January 1993
v.	The Department should consider the introduction of Guidelines – a statement of key principles and policies – for the Board's Marketing programme. Key principles are	31 January 1993

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suggested. (8.4.18 – 8.4.20)

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| vi. | The Department and the board should continue their development and refinement of the agreed performance indicators as a matter of priority. In the context of developing the annual review process, the Department and the Board should review the current indicators for reporting progress to the Department with a view to agreeing a smaller number of key indicators spanning main programmes. (8.4.23) | Ongoing (review of indicators to be completed by 28 February 1993) |
| Vii. | The Department should consider introducing a system whereby the Board would have freedom to determine the number of staff employed provided costs are contained within the running costs regime. There will remain a requirement for appropriate Departmental monitoring arrangements. This could have implications for NDPBs generally and might have to be considered on a broader basis by the Department. (8.4.37) | 30 April 1993 |
| Viii. | The Board should continue its active examination of its functions to identify early action plans for further suitable candidates for contracting out or privatisation. The Department will maintain an involvement. (8.5.24) | Ongoing |
| ix. | The Board should continue its aim of increasing advertising rates, ultimately to the level where rates reflect true economic cost. Thereafter it could be possible to transfer these functions to the private sector subject to appropriate arrangements to assure the maintenance of quality standards and observance of WTB strategic aims. (5.12.5) | Ongoing |
| x. | The Board should continue its facilitatory approach, seeking to encourage increased industry activity (in marketing) in sympathy with its strategic objectives, and this and other key policies should be agreed with the Department in the context of agreeing the management statement. (5.12.9 – 5.12.10) | Ongoing (agreement on key policies by 30 April 1993) |
| xi. | The Board and the Department should keep | Ongoing |

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the Board's role in training and business advisory services under review, taking account of the further development and increasing capabilities of the TECs. (7.12.4)

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| xii. | The Board and the Department consider whether the current and proposed level of activity on Tourism Action Plans, and on the provision of advice to public bodies, meets the needs. (7.12.3) | 31 December 1992 |
| xiii. | The Department and the WTB, in conjunction with their UK counterparts, should consider improving the statistics indicating tourism's contribution to the national economy and to local economies, particularly in respect of employment and income generated. (2.7.2 – 2.8.1) | Ongoing |
| xiv. | The Board should seek to achieve closer strategic links with other government agencies at Chief Executive level to review existing partnership arrangements and future scope for joint ventures and to discuss broader strategic issues. This will be particularly important to the development of 'Tourism 2000' (7.10.2) | Ongoing |
| xv. | The board should clearly identify in its forthcoming national tourism strategy its proposed directions for national, regional and more local level tourism marketing across Wales, specifying its own role and that which it envisages for other bodies, including the regional companies, local authorities and local tourism associations, and should seek to obtain a consensus thereupon. This should include active discussions of strategic direction with key outside interests individually and at senior level. (5.12.3) | 30 September 1993 |
| xvi. | The Board should specifically address questions of geographical balance and priority (for Section 4 assistance), particularly for rural areas which are highly dependent on tourism, in formulating its forthcoming national tourism integrated strategy. (6.6.4) | 30 September 1993 |

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| xvii. | The Board should specify address questions of geographical balance and priority (for Section 4 assistance), particularly for rural areas which are highly dependent on tourism, in formulating its forthcoming national tourism integrated strategy. (6.7.1) | 30 September 1993 |
| xviii. | The Board should consider the further development of community initiatives in rural Wales, in partnership with other bodies, when formulating its national integrated tourism strategy. (6.12.5) | 30 September 1993 |
| xix. | In formulating its national strategy, the board should consider the scope for further encouraging and stimulating joint marketing schemes in keeping with its strategy. (5.12.4) | 30 September 1993. |
| xx. | The Board should ensure that relevant sections of its Financial Manual are updated and issued to staff without delay when changes occur. All sections should be individually dated and a new index should be issued, including the latest dates of each revised section, with each update. (8.5.4) | 31 December 1992 – issue initial revision; ongoing thereafter |

2 Other Recommendations

Proposed Completion Date

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| i. | Following improvements implemented during the course of the review to the system for the WTB's submission of Appropriations in Aid receipts, the Department should further improve the system by requiring receipts to be received by ERP3, where there are links with that Division's financial monitoring responsibilities. (8.4.22 ii.) | 31 December 1992 |
| ii. | The Department should revise the Board's financial returns to provide for the identification of the budget heads (as set out in the Financial Memorandum) which generate GIA receipts. (8.4.22 iii.) | 31 December 1992 |
| iii. | The Department should comply with the requirement of the Financial Memorandum and extend its monitoring of a sample of | 31 December 1992 |

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Section 4 cases to include the Board's monitoring procedures. This should include consideration of the level of the sample compliance visits undertaken by the Board for which targets are set out in the agreed Section 4 procedures manual. (8.4.26 – 8.4.27)

- iv. The Department should consider increasing the level of the WTB's delegated authority for the write-off of losses to bring it more in line with those of other NDPBs. The suggested level is "2,500 per event within an annual aggregate of £10,000. (8.4.13 – 8.4.15) 31 December 1992
- v. The Department and the Board should agree to include discussion of the Section 4 report forms as the first agenda item for the quarterly monitoring meetings. (8.4.24) 31 December 1992
- vi. The Department should consider adopting a quarterly version of the Board's own Section 4 reporting form ('Appendix II' to the submission to the WTB Board) as the basis for the performance monitoring/quarterly meetings process. In addition, a simplified Section 4 forward commitment form should be considered. (8.4.24) 31 December 1992
- vii. The Department and the board should consider introducing in-year performance reporting on the Marketing programme as a basis for the quarterly monitoring meetings. (8.4.25) 31 December 1992
- viii. The Department and the Board, perhaps on a trial basis, should introduce arrangements whereby appropriate Development Division offices join the half-yearly point quarterly monitoring meeting on Section 4. Discussion on the general development programme would focus on a brief and informal half-yearly progress report. This could provide a forum for the development of improved strategic links with other Division. (7.19.2) 31 December 1992
- ix. The Department should consider issuing the Board guidance on the deposit of temporary 31 January 1993

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cash surpluses. (8.4.34)

- x. The Department should consider issuing to all NDPBs a brief checklist of the main headings it would expect to see covered in Financial Manuals. (8.5.10) 31 January 1993
- xi. The Department should consider asking the Board to include a not in its Annual Accounts attributing administration costs to programme functions. (8.4.32) 31 January 1993
- xii. The Department should consider allowing the WTB a small annual carry-over flexibility for Section 4 project assistance. Two per cent would be an appropriate level. (8.2.3 – 8.2.5) 31 January 1992
- xxiii. The Department and the Board should consider an amendment to the rules governing Section 4 assistance in order to allow the funding of desirable revenue schemes such as LEAD Management/project leadership. (6.12.3) 31 January 1993
- xiv. ERP3, in agreeing the WTB's Section 4 Procedures manual, should consult other interested Welsh Office Division. The current edition should be the subject of such consultation and ERP3 should consider the need for agreeing changes to the Manual in the light of comments received. (8.4.19) 31 January 1993 – complete internal consultation/consideration; 31 March 1993 – complete amendment (if necessary)
- xv. The Department and the Board should remove the anomaly in the Section 4 eligibility criteria whereby directly funded Welsh Office bodies are eligible for grant. The bodies involved – particularly Cadw and the National Museum of Wales – should be notified of the change. (6.5.4) 31 December 1992
- xvi. The Department and the Board should agree a refinement to the agreed Section 4 performance indicators whereby infrastructure projects with no direct job creation are discounted from the calculation of cost per job, in order to develop a clearer view of the cost of job creation. Appropriate indicators would then need to be developed for infrastructure projects. (6.6.2b.) 31 January 1993

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- xvii. The Department should amend its handling procedures for Section 4 project applications above the WTB's delegated limit for approval to include, where appropriate, consultation of other interested Divisions – Finance Programmes, Accountancy and Audit, and Estates Divisions – by ERP3. The Department and the Board should agree a target timescale for processing applications. (6.9.3) 31 December 1992
- xviii. The Department and the Board should agree to include discussion of the quarterly expenditure reports/revised profiles submitted as the first agenda item for the quarterly (financial) monitoring meetings. (8.4.22i) 31 December 1992
- xix. The Department and the Board should discuss the Department's Divisional Plan targets for handling WTB work in the context of preparing the management statement. (8.4.43) 30 April 1993
- xx. The Department and the board should consider the arrangement for meeting satisfactorily Departmental requests for briefing information. (8.4.42) 31 December 1992
- xxi. The Department and the Board should consider whether the current budgetary profile set out in the corporate Plan and the Board's financial profiles accurately identifies the full costs of the main Wales holiday brochure. (5.12.6) 31 December 1992
- xxii. The Department should consider inviting the WTB to join its Urban Regeneration Co-ordination Group. (8.4.39) 31 December 1992
- xxiii. The Board should document in the Financial Manual its procedures for action to be taken upon the detection of possible fraud or theft. (8.5.6) 31 December 1992
- xxiv. The Board should introduce arrangements for monitoring compliance with the tender procedures set out in Financial Manual. Suggested arrangements are: 31 December 1992

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- a. annual scrutiny of compliance by internal auditors;
 - b. quarterly scrutiny of a sample of cases (the percentage to be fixed so as to produce a reasonable number of cases) by spending Directors who should report their findings to the Finance director/Secretary with copies to the Chief Executive. (8.5.7)
- xxv. The Board should document in the Financial Manual the constitution and role of the various Board and officer committees. (8.5.9 I) 31 December 1992
- xxvi. The Board should consider the inclusion of appropriate more detailed marketing and development assessments in future years' corporate Plans linked to appropriate individual programmes. (8.4.10) 30 April 1993
- xxxvii. The Board should continue to develop its overseas marketing strategy, and revisions thereto, in consultation with other key interests. (5.12.3) Ongoing
- xxxviii. The Board should incorporate both net and gross presentations of the marketing budget in future corporate Plans. (5.12.7) 30 April 1993
- xxxix. The Board should monitor the trends in enquiry rates and in the light of the results keep under review the need for reinstating a Mid Wales grants office. Ongoing
- xxx. The board should consider minor refinements of its Section 4 appraisal procedures, whereby:
a. reference should be made in appraisals to the targets governing the schemes and explicit justification should be provided for deviating from the target norm levels of assistance in force; in addition, the Department and the Board should agree which set of norms takes precedence;
b. local-use elements of assisted projects should be more clearly identified in appraisals;
c. specific reference to the availability and

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- effect of alternative sources of finance, including brewery loans, should be included in all appraisals. (6.12.6)
- d.
- xxxi. The Board should consider minor refinements to the (S4) aftercare/monitoring system, whereby; 31 January
- a. standardised pro-formas for financial profiles should be issued and required to be submitted annually as a standard condition of assistance;
 - b. aftercare assessments should include an assessment of the effectiveness of case appraisals and the accuracy of the judgements used;
 - c. companies visited for aftercare purposes should be provided with a written assessment of perceived strengths and weaknesses and action recommendations by the aftercare officer. (6.12.7)
- xxxii. The Board should consider expanding the index of external forms of assistance included in the agreed Section 4 Procedures Manual. (6.12.8) 31 December 1992
- Xxxiii. The Board should keep under review the practice of inviting the Chairman and the Managing Directors of the regional companies to WTB Board meetings and the Managing Directors to offer committees. If need be consideration could be given to establishing an alternative forum for any necessary exchanges. (8.5.8 - 8.5.9) Ongoing
- xxxiv. The Board should keep its relationship with the divested companies under review. (8.5.23) Ongoing
- xxxv. The Board and the divested companies should review the arrangement whereby fees for the verification and grading schemes are received by the regional companies for transmission to TQS Ltd. (7.12.5) 31 January 1993

1. Statutory Background and Objectives

The Wales Tourist Board (WTB) is a statutory body created by the Development of Tourism Act 1969, which also established the British Tourist Authority (BTA) and the English and the Scottish Tourist Boards.

Under the Act, WTB's function's are:

- to encourage people to visit Wales and people living in Wales to take their holidays there; and
- to encourage the provision and improvement of tourist amenities in Wales.

The Tourism (Overseas Promotion) (Wales) Act 1992 subsequently gave WTB increased independence to market Wales overseas to supplement the work of the BTA.

The activities and policy priorities of WTB have evolved over the years in response to shifts in government policy and to changes in the wider economic and social environment. The WTB has interpreted its statutory functions more widely in the development of its corporate policy objectives which have been drawn from the following mission statement:-

“The mission of the Wales Tourist Board is to improve the economic and social prosperity of Wales through the effective marketing and development of tourism.”

WTB's four corporate objectives cover the key themes of Promotion, Product Development, Profitability and Partnership and form a strategic framework for the delivery of a carefully planned programme of activities which are designed to achieve economic growth and prosperity for Wales. In all of its activities WTB adopts a customer – focussed approach which seeks to understand market needs and help the industry meet the expectations of their visitors. WTB acknowledges, however, the need to safeguard local communities and the culture, language and landscape of Wales as these comprise the essential resources around which tourism is based. Tourism can have a profound impact on host communities, sustaining cultural and traditional activities as well as supporting local services, shops and other community amenities which would not otherwise be viable. When poorly planned, however, tourism can sometimes be perceived as a threat, weakening rather than strengthening the values and quality of life of local communities. One of the important lessons to be taken from the Foot and Mouth outbreak during 2001 is that there is nothing incompatible between a thriving tourism industry and a stable, viable and prosperous community – provided that both those involved in tourism and those living and working in the wider community have a mutual understanding and respect for each other.

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2. The importance of tourism to the Welsh economy

Tourism is one of Wales' most important industries and is particularly important to many rural and coastal areas. It accounts directly for more than £2 billion of spending from overnight and day visitors, contributing 7% to Welsh GDP. In comparison, agriculture contributes less than 1.5% of GDP. Overnight tourism is more important to Wales than to the economies of other UK counties. Almost 70,000 jobs are supported directly by tourism – over 7% of the workforce. It is estimated that tourism supports directly, indirectly and through induced effects a total of 100,000 full time equivalent jobs in the Welsh economy.

Major long term changes in the economy of Wales have seen the contraction of traditional industries, a diversification of manufacturing and the steady growth of the service sector. Tourism is an important component of the service industries and there is considerable potential for it to further extend its contribution to an economy in transition given adequate support for its promotion and development.

In recent years the establishment of the National Assembly for Wales (NAW) and the designation of West Wales and the Valleys as an EU Objective 1 area has enabled WTB to gain significant additional funding for the promotion and development of tourism in Wales. WTB has been able to establish a strong and effective working relationship with the NAW who have increasingly acknowledged the major contribution that tourism makes to the economy.

3. Why is there a need for the Wales Tourist Board?

Despite the considerable benefits which tourism can bring to Wales, the industry on its own would not be able to secure them. Government intervention is needed for the tourism industry to realise its full potential. This is chiefly because the tourism industry comprises a large number of micro businesses. There are approximately 10,000 private sector businesses involved in tourism in Wales. Wales accounts for only 5% of all hotel bedroom stock in the UK with 60% of all hotels having less than 10 rooms. Only 6% of hotels have 40 bedrooms or more. The average guest house/farmhouse in Wales has only about three letting bedrooms. The self-catering sector is also dominated by individually owned businesses of three units or less and more than 60% of tourist attractions receive less than 50,000 annual visitors. The Welsh tourism industry, therefore, is dominated by very small scale independently owned businesses with relatively low profit margins and high commercial fragility.

Without the WTB many of these businesses would not be able to reach their market as very few have the resources, infrastructure and expertise to do this on their own. WTB provides businesses with a highly cost – effective communications channel. In addition, WTB provides the industry with market intelligence on the expectations and needs of potential and actual customers, and provides essential grant support and business advice to stimulate facility improvement to meet the changing needs of the market. As an Assembly Sponsored Public Body, WTB is directly accountable to the NAW for its actions and performance. WTB also acknowledges the need to be accountable and answerable to its wider stakeholder base and particularly to the tourism industry in Wales. WTB seeks to ensure that its activities complement, support and add value to those undertaken by individual businesses.

Tourism businesses in Wales have limited time and resources to be concerned with the promotion of Wales as a tourism destination or with improving the overall quality of the

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diverse tourism product within Wales. There remains, however, a clear need to develop and promote a strong image for Wales and to ensure that this is backed up by effective information, enhanced booking capability and high quality products. Because of its highly fragmented nature, the tourism industry would not be able to undertake this role on its own.

As well as being characterised by its fragmented and small scale business structure there are a multiplicity of organisations who have an interest in tourism. Although the tourism experience is delivered mainly through the private sector, the policies and functions of many organisations exert powerful influences over the way that tourism is promoted, developed and managed. There is, therefore, considerable capacity for duplication of effort and for an ad-hoc rather than a planned approach to tourism promotion and development. It is not the responsibility of government to undertake activities or to provide services which are better delivered through the private commercial sector. Its rightful role is to intervene where there is a need to do so and to undertake those activities which are required but are beyond the scope of the industry to deliver. In this context WTB has a key role to provide a strategic framework within which private enterprise can achieve growth and success and which can stimulate effective partnership working.

4. Tourism Trends

Tourism is a global industry and is highly competitive. Newly emerging tourism destinations have made it increasingly difficult for relatively mature destinations such as the UK to maintain its market share of global tourism. Wales and specific regions within Wales are in direct competition for UK and overseas visitors with Scotland, the Lake District, the West County and many other areas. During the 1990's Wales has found it difficult to improve its market share position relative to its main competitors. This demonstrates the scale of the challenge which still faces Wales. Co-ordinated and sustained activity at all levels in the industry to improve the quality and presentation of the product and to enhance perceptions of Wales as an attractive tourism destination is needed if Wales is to achieve competitive advantage and improve its market share position relative to competing UK destinations.

WTB's total marketing spend in 2000/2001 was £6.4 million of which £1.7 million was spent overseas. This split of resources reflects the fact that the UK market is the main source of tourism business for Wales, the peak season holiday market being particularly important. In 2000, over 13 million UK visitors spent £1.6 billion compared with 1 million overseas visitors spending £267 million. Wales' share of the domestic (UK) market deviated around an average of 8.0% during the decade of the 1990's. In contrast, Wales' share of all overseas visitors to the UK in 2000 was only 3.8%. Spending from overseas visitors to Wales amounted to 2.1% of the UK total. While the overseas market remains one which has been targeted for growth by WTB, the lack of a clear and strongly identifiable image for Wales in key overseas markets has been a constraint to growth. Even so, since WTB received new powers to market itself independently overseas in 1992, spending by overseas visitors to Wales has more than doubled representing an average annual growth rate of 9%. In international terms, Welsh residents spend more on tourism outside Wales than non – Welsh residents spend in Wales. From the national UK perspective, however, Wales remains a net exporter of tourism, there being a credit balance for Wales in 2000 of £588 million.

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5. WTB's role

Providing strategic leadership

The principal role of WTB is to provide leadership and strategic direction to a diverse and fragmented industry. WTB has worked with all parts of the tourism industry to produce a succession of medium – term tourism strategies for Wales which provide a framework for clarifying future direction, establishing priorities and stimulating effective working relationships within the industry over a definite timescale.

The strategic approach led by WTB seeks to:-

- improve the competitiveness of Welsh tourism;
- raise the profile and status of the industry generally and increase recognition of its economic importance;
- adopt a customer – focussed approach which understands and responds to market needs;
- improve understanding of the roles and responsibilities of the different organisations involved in tourism and identify opportunities for effective partnership working;
- promote growth in tourism through sustainable means;

The latest strategy '*Achieving Our Potential*' was launched in April 2000 and covers the period up to 2010. It is a strategy which deliberately concentrates on identifying the most effective response to the many important challenges which face the tourism industry in Wales.

Achieving Our Potential adopts a customer – focused approach which emphasises the importance of understanding market needs to inform future marketing and development – related activities. The aim is to ensure that Wales provides the right mix and quality of facilities and service delivery to exceed the expectations of the market so that visitors return, stay longer and recommend Wales to others. Tourists are becoming increasingly sophisticated and less tolerant of sub-standard facilities, mediocre and indifferent service. WTB has used the template of a strategic approach to promote the message that innovatory business practices and investment based on a sound knowledge of market trends, an understanding of market needs and an awareness of new opportunities will be fundamental to achieving future success for the industry. It is a strategy which is built around the following four themes:-

<ul style="list-style-type: none"> • Sustainability 	<p>tourism must be developed responsibly if it is to achieve wider economic, environmental and cultural benefits for Wales;</p>
<ul style="list-style-type: none"> • Quality 	<p>tourism must be responsive to the needs of the consumer and the industry must adapt its product accordingly;</p>
<ul style="list-style-type: none"> • Competitiveness 	<p>tourism is becoming increasingly competitive locally, nationally and internationally. The industry in Wales must seek innovative ways to achieve its full economic potential;</p>
<ul style="list-style-type: none"> • Partnership 	<p>tourism is a fragmented industry. Effective working relationships are needed to raise the status and prosperity of the industry.</p>

Enhancing the image of Wales

Branding has become a vitally important ingredient of destination marketing. There is a strong evidence to show that the stereotyped, outdated images of Wales within the UK and the lack of strong identity for Wales internationally in some target markets has been a barrier to growth. This poorly defined brand image for Wales has contributed to the low price culture which characterises many sectors of the industry. Over the last five years WTB has made significant progress in addressing these image failings by building attractive, realistic and motivating brand positionings for Wales in UK and overseas markets. Research helped to define distinctive and credible brand positionings which are seeking to lift the international profile of Wales and to create a distinctive identity which clearly differentiates Wales from other parts of the UK. WTB also acknowledges that there are clear advantages to be gained from the development of a clear and distinctive national branding identity for Wales and will continue to work closely with the National Assembly for Wales in the Wales World Nation branding project to ensure that consistent messages are used in communicating Wales to the world.

The staging of major national and international events in Wales can play an important role in generating short term benefits but more significantly in improving perceptions about Wales. WTB worked with many partners to maximise the success of Rugby World Cup in 1999 and played an important role in the team which succeeded in attracting the Ryder Cup to Wales in 2010. WTB also continues to identify promotional opportunities to build on the staging of major events within Wales such as the FA Cup Final in the Millennium Stadium.

Developing Partnership in Tourism

WTB has always worked with others in the development and marketing of tourism in Wales. Partnership has been a growing feature of all areas of WTB's work since 1993. WTB have jointly prepared a Milestones Agreement with BTA which clarifies working arrangements and in much the same way WTB has agreed a Memorandum of Understanding with the Welsh Local Government Association which describes the working relationship between WTB and the Association and individual local authorities.

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Some specific examples illustrate the growing emphasis given to partnership working by WTB:-

- the establishment of 16 Tourism Growth Areas in Wales which builds on the success of previous geographical targeting of WTB funds through the Integrated Development Programme (1994 – 2000) and the Local Enterprise and Development Scheme (1988 – 1993). This strategic approach to investment seeks to co-ordinate the activities and funding of willing partners to upgrade the quality and competitiveness of the existing tourism product through comprehensive action within an agreed timescale. For each growth area, WTB has established a partnership body of public and private sector interests to steer each programme from the outset;
- the co-ordination of public sector marketing between WTB and the 22 local authorities in Wales has been a major step towards the achievement of a team approach to the marketing of Wales. Tourism 2000 the national strategy for tourism (1994 – 2000) identified a need to rationalise the range of promotional print to simplify the process of holiday choice for potential visitors to Wales. Following consumer research and consultation with the industry, WTB, local authority and regional partners identified 12 meaningful marketing areas in Wales which have since 1996 formed the basis of a joint promotional strategy. This partnership approach to marketing has been consolidated through a joint media buying scheme which pools resources to achieve greater advertising coverage for Wales and also through the Tramor Overseas marketing initiatives which ensures a strongly branded Wales presence in Europe's major holiday shows. Such partnership approaches have proved an effective way to improve co-ordination and have also provided opportunities to bid for additional EU funding support.
- The setting up of four new Regional Tourism Partnerships (RTPs) coterminous with the Economic Fora areas in Wales. The debate over roles and responsibilities within tourism in Wales (ie. who does what) has occupied minds for a number of years. Fundamentally, there was a widely held view that existing structures were not operating as effectively as they might. At the very least the tourism industry in Wales expects the organisational structure of tourism in Wales to facilitate rather than restrict their attempts to improve their business performance. During 2001, WTB announced its intention to establish four new RTPs with clear responsibility for leading the implementation of the regional tourism strategies. These partnerships will comprise an equal balance of public and private sector representatives and the devolution of functions and funds from WTB to the RTPs lies at the centre of these proposals. For the first time, adequate funding will be in place at the regional level to support the planned implementation of regional strategies which have been put in place to strengthen the competitive position of tourism. The RTPs are scheduled to be established as legally constituted bodies by 1 April 2002.

Marketing the Tourism Product

WTB marketing role is to facilitate the promotion and distribution of Wales' numerous tourism products to its UK and overseas markets. Essentially, WTB provides a co-ordinating and promotional role for the fragmented tourism industry in Wales. WTB's campaigns in the UK and overseas seek to generate direct bookings in the short term and also to improve perceptions of Wales in the medium to long term. The overall aim is to maximise visitor spend to Wales throughout the year. Increasingly in recent years WTB has adopted a more segmented and targeted approach to its marketing. Target markets are selected after analysing a number of criteria to establish which offer the best growth potential for Wales.

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The selection process, therefore, is thorough and professional and the development of a response database by WTB which now holds details of over 900,000 names, ensures that direct marketing campaigns are increasingly effective in generating visits to Wales. Research undertaken over the last three years demonstrates that every £1 spent by WTB and its local authority/regional partners on the main UK direct marketing campaign generates an estimated £30 of additional holiday spending in Wales. Overseas we have concentrated activity in our five priority markets of USA, Germany, France, Ireland and Holland. We work closely with the BTA and with key travel trade operators to improve the conversion rate of enquiries into actual bookings.

Generating media coverage is also a strong weapon in WTB's marketing armoury. Stimulating and supporting press visits is essential to generate travel articles about Wales to supplement WTB's advertising and direct marketing campaigns. Over 200 journalists from the UK and overseas visited Wales during 2000 and WTB also secured the Society of American Travel Writers 43rd annual convention, the first time that the convention had even been held in the UK.

Providing Information and Booking Capability

Producing quality information for visitors before and during their stay in Wales is an essential requirement to generate bookings and additional spend, extend the length of stay and encourage repeat visits. Tourist Information Centres (TICs) play a key role in satisfying the information needs of visitors and during 2000 the TIC network welcomed 3.3 million visitors. These TICs are predominantly funded by local authorities but WTB has a key co-ordinating role to ensure that TICs continue to offer a uniformly high standard of service.

In recent years the Internet has increased in importance as a mechanism to supply information about Wales to enquirers from around the world. During the single month of August 2000, for example, over 4.6 million visits were recorded to WTB's website. (www.vistwales.com) compared with 1.9 million visits in the same month in 1999. WTB is presently developing an innovative Destination Management System (DMS) which will be launched in March 2002. The DMS will provide a central database of information about Wales and the tourism products available e.g. accommodation, attractions, events and transport. It will also support a customer booking service, a call centre, a brochure fulfillment service and a customer database through which relationship management will be developed. The DMS is being developed by WTB on behalf of the tourism industry in Wales. It is an excellent example of the continuing need for public sector intervention in tourism. The industry would not have been able to establish such an integrated system which will provide all businesses with global marketing opportunities.

Setting Quality Standards for the Industry

WTB has a key role in helping the industry to improve quality standards to match ever more sophisticated consumer expectations. Quality through service delivery and product presentation will assume ever more relevance in the face of mounting competition within the UK and abroad.

WTB has led the way in the introduction of quality grading schemes which are designed to give greater re-assurance to the consumer and improved standards of service through a system of regular, independent inspection. These schemes have evolved over time in response to consumer needs and advice from the industry. Since 1993 WTB have introduced grading schemes for activity centres and tourist attractions as well as revising

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the scheme for serviced accommodation where grading is now based more on quality than on the range of facilities available. Up to June 2001, only those tourism businesses who participated in WTB's quality grading schemes were allowed to advertise in WTB publications or in those of its marketing partners. This policy was then extended to include tourism businesses who participate in approved external accredited schemes (e.g. AA and RAC hotels). This will allow Wales to improve its overall marketing impact while still retaining quality control for WTB's direct and indirect marketing campaigns in the UK and overseas.

WTB's continued commitment to quality is further demonstrated by two relatively recent initiatives. Firstly, WTB has decided to bring back its quality inspection service as an in-house operation. Not only will this ensure a greater degree of centralised control to ensure that high standards are maintained, the service is to become more proactive and supportive to businesses. Inspectors will be re-designated as Quality and Business Support advisers and will seek to provide individual businesses with a greater degree of advice, guiding them to useful contacts within WTB and other organisations for the necessary business support they may need. In this way WTB will be able to reach a greater number of tourism businesses and provide specialist advice within a wider business support network which is emerging in Wales.

Secondly, WTB has been consulting with the industry to test opinions on the need for the introduction of a statutory registration scheme for accommodation in Wales. Such a scheme would require all registered businesses to achieve a minimum standard of quality. The results of the consultation exercise and WTB's advice to the NAW will be published by the end of June 2002.

Improving the Product

Although good progress has been made in upgrading the tourism product in Wales, there is still much to be done in all sectors of the industry to ensure that Wales has an adequate quality and a competitive range of facilities. The key mechanism available to WTB for stimulating capital investment in new or improved facilities is the scheme of financial assistance administered under Section 4 of the Development of Tourism Act 1969. WTB's investment strategy has been tailored to meet the needs of both small and larger businesses with emphasis in recent years given to upgrading existing businesses to satisfy changing consumer expectations. The operation of the scheme has been of crucial importance in meeting the development priorities of successive national strategies for tourism. It is an essential requirement to support the objectives of the Tourism Growth Area strategy.

During the six year period (1994/95 to 1999/2000) covered by an independent evaluation, commissioned by WTB and carried out by Segal Quince Wicksteed, WTB supported a total of 1,166 projects through the scheme, applying £20.2m in grants which generated total capital investment of over £100m. 2,600 full time equivalent direct on site jobs were created/safeguarded at an average gross cost per job of £7,700.

The evaluation concluded that WTB's scheme was effective and successful – recipients of support indicating a high level of satisfaction with WTB's delivery. In particular noting that 84% of supported businesses reported a growth in turnover, the average increase being 50%. IN 75% of cases it was reported that WTB assistance had a beneficial influence on other funders and 90% of cases demonstrated that the funding was influential in determining the scale, timing and/or quality of the final project.

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WTB acknowledges that it is not only important to invest in new and improved facilities to secure competitive advantage for Wales. It will be equally important to invest in people and to ensure high levels of service, welcome and professionalism. In 2001, WTB have helped to secure funding support for the establishment of the Tourism Training Forum for Wales as an independent Executive organisation. The new body, which will have key members of staff seconded from WTB, will provide a link between economic development and adult education and training. As a body it will forge strong working links with bodies such as ELWa and Springboard Wales.

6. What has WTB achieved?

NAW strategic targets

WTB is set annual performance targets by the NAW to test the effectiveness and efficiency of its operations. A summary of out-turn against target for the five year period 1996/97 – 2000 /2001 is shown at Appendix 1. WTB undertakes programme of monitoring and evaluation surveys which are designed to demonstrate the effectiveness of its activities.

General achievements:

The achievements of the WTB in recent years reflect the strategic priorities which have been defined in successive national strategies for tourism in Wales. In summary they include:-

- helping the industry to achieve higher quality and to adapt its products to meet the challenges of a more competitive situation;
- creating more than 2,600 full time job equivalents at an average cost per job of £7,700 during the six year period 1994 - 2000, many of which were located in the West Wales and the Valleys Objective 1 area;
- a more focussed approach to stimulating investment in the tourism product. the Integrated Development Programme which targeted resources at six coastal resorts and seven historic towns in Wales generated over £40 million of capital investment in new and improved facilities and supported the creation of 800 full time equivalent jobs between 1994-2000;
- a more professional, integrated and targeted approach to the marketing of Wales as a tourism destination. WTB has made significant progress in developing a new, motivating and distinctive brand image for Wales in target markets. WTB has developed a range of partnership initiatives with local authorities and the tourism industry to improve marketing effectiveness. The rationalisation of print through the establishment of Marketing Areas in Wales, co-ordinated media buying and the TRAMOR overseas initiative are good examples of effective partnership working;
- stimulating £30 for every £1 spent on direct marketing campaigns in the UK;
- supporting a more professional and well trained approach to customer care – since 1991 over 58,000 people have been trained as Welcome Hosts;
- supporting the operation of a national Tourist Information Centre network through training and funding;
- investing £1.8mn. in the development of a Destination Management System for the tourism industry in Wales which will be operational by April 2002 – this will allow businesses to reach global markets in a cost-effective and efficient way;
- contributing to the work of the Green Seas partnership with 22 beaches achieving Blue Flag status in 2000 and 25 receiving the Green Coast award;
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- winning 17 national and international awards for its “Two hours and a million miles away” UK Marketing campaign;
- contributing to the Team Wales winning bid for the Ryder Cup in 2010 which is forecast to generate an additional £100 mn. to the Welsh economy;
- being part of the Team Wales initiative to promote Rugby World Cup 1999, an event which generated £83 mn. to the Welsh economy;
- attracting the Society of American Travel Writers convention to Wales in 2000 – 464 writers from the USA and Canada visited Wales and went home with stronger impressions and potential stories about Wales.

7. Improving WTB’s effectiveness

- Resource availability has traditionally placed a very real constraint on the range and effectiveness of WTB’s activities. The lack of adequate marketing funds, for example, in comparison to competitor destinations has limited WTB’s ability to improve awareness levels of Wales in overseas markets. An unprecedented 30% increase in grant-in-aid from the NAW (i.e. from £15.5 million to £20.0 million) for the 2001/2002 financial year, however, indicates a growing realisation of tourism’s importance to the economy of Wales. Additional funding from EU, Pathway to Prosperity match funding and supplementary in-year funds from the NAW for Foot and Mouth recovery initiatives will result in WTB having a total budget capability of £30 million in 2001/2002, a massive vote of confidence for WTB and tourism in Wales. Although these additional funds are welcomed, there will be expectations on WTB to apply these funds effectively. As a consequence WTB are seeking approval from the NAW to undertake essential re-structuring which will require both internal re-organisation and recruitment of key staff. In order to facilitate this re-structuring WTB will need a re-allocation of programme costs to running costs.
- In such a fragmented industry, where many organisations have a role to play in tourism development, marketing and management, there is an ever-present threat of duplication of effort. While not seeking to restrict or control involvement by any organisation, an improved understanding of roles and responsibilities (ie. who does what) is still required to ensure that Wales receives a better return on its investment in tourism. The development of a family of agreements or memorandum of understanding, therefore, building on those already in place with BTA and the WLGA could only improve the working relationship that WTB has with other organisations. In this way a strategic approach to marketing and investment could achieve significant gains for Wales than are currently possible.
- As an Assembly Sponsored Public Body, WTB has a duty to advise Government on the needs of the tourism industry but it cannot lobby Government and, therefore, cannot act as a representative body for the industry – this may give rise to a conflict of interest with its strategic purpose which is to increase tourism’s economic and social contribution to Wales. There remains, however, a strong need for a unified and distinct ‘Voice of the Industry’. A representative, inclusive body which is able to lobby Government on behalf of all sectors of the industry would be a useful development to demonstrate a maturing industry. This independent industry voice already exists in Scotland and England. WTB considers that NAW support for such an initiative will be needed to provide an impetus to its formation and operation.

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- WTB believes that it is important for the NAW to set strategic targets which relate directly to WTB activities and against which it can be held wholly accountable. The practice of setting targets relating to tourism's volume and value growth are understandable but progress against the achievement of such targets is often determined by external factors over which WTB has no control. WTB are happy to work with the NAW to develop a suite of more meaningful targets against which its performance can be more accurately measured;
- Tourism is an industry which depends greatly on accurate market information. The industry relies heavily on WTB for market information and general market intelligence. There is a need for more accurate information on the real value of tourism to the economy, a need for better sharing of market intelligence within the industry, a need for improved evaluation systems and a need for enhanced predictive research which seeks to identify future motivations and requirements of the consumer to inform marketing and development priorities. WTB would want to be represented on NAW's planned Economic Research Advisory Panel so that the research and statistical needs of the tourism industry are given appropriate consideration;
- WTB is committed to the principle of improving the quality of the tourism product in Wales. The statutory registration of all accommodation linked to minimum standards of quality is strongly advocated by WTB. Such an initiative, which must be introduced at the minimum of cost to the industry would gain immediate competitive advantage for Wales in the UK and would be an effective tool to use to drive up quality standards in all accommodation sectors;
- Spending by overseas visitors to Wales represents approximately 19% of total spending by all overnight visitors to Wales. At the UK level, the overseas share is closer to 50%. Wales needs to increase the share of overseas spending as a proportion of all tourism spending to optimise economic benefit for Wales. It will be important for WTB and BTA to ensure that their respective growth targets are consistent and compatible. BTA must ensure that growth at the British level is achieved through balanced growth throughout its constituent countries.

Although Manchester International airport is developing a strong incoming schedule of international flights and has good access to North Wales, the majority of inbound air traffic into the UK is still routed via Heathrow and Gatwick airports. Only a relatively small proportion of international visitors to Wales currently enter the country via Cardiff International Airport which has only a limited range of international scheduled service into Wales. The presence of a major international gateway airport for Wales with high speed road links to the capital city will be essential to ensure that significant international tourism growth can be achieved.

- In general terms, the tourism industry in Wales has yet to take advantage of the marketing opportunities available through new forms of Information and Communication Technology (ICT). The development of integrated systems which can combine information provision with an instant booking facility will become a key part of the future marketing of Wales. This will require a co-ordinated, planned approach and significant additional resources to develop and evolve suitable systems which can be accessible to all tourism operators in Wales. In April 2002, WTB will launch a new Destination Management System on behalf of the tourism industry in Wales. It will be important to stimulate a wide

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level of involvement in the DMS by tourism businesses, regardless of their size. We must ensure, therefore, that more tourism businesses have computer facilities to provide direct access to the Internet and are given the necessary training to support their involvement in DMS. This may require public sector support for the purchase of hardware and for the provision of appropriate training.

8. Conclusion

Financial Management and Policy Reviews of WTB have taken place previously in 1985 and in 1993. In both instances the reviews confirmed that there continued to be a need for public sector intervention in tourism and that the government's role was best exercised through the WTB.

WTB has demonstrated since the most recent FMPR that it has strengthened its strategic leadership role, providing the industry with the necessary support and direction to increase its prosperity. WTB works closely with the industry and also with other bodies to ensure that funds are applied towards strategic priorities to achieve economic and social benefits for Wales. WTB considers that it continues to have a key role to play in targeting funds wisely in a strategic manner to support the achievement of increased prosperity for the industry through sustainable means.

No less than any other part of the economy, tourism will need to adapt and change in response to the many challenges ahead to ensure its future success. The tourism of tomorrow will look very different to the tourism of today and there will be many difficult and some painful choice for those involved in the industry. WTB has a key role in providing the industry with strategic guidance so that wiser choices are made in the allocation of scarce resources to ensure a better return on investment.

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Appendix 5: Summary of Outturns Against Key Targets 1996/97 – 2000/01

	1996/97 Target	1996/97 Out-turn	1997/98 Target	1997/98 Out-turn	1998/99 Target	1998/99 Out-turn	1999/00 Target	1999/00 Out-turn	2000/2001 Target	2000/01 Out-turn
1. Leverage ratio – WTB grant: Capital Investment	1:5.5	1:6.6	1:5.5	1:5.0	1:5.5	1:6.6	1:4.5	1:6.0	1:5.0	1:6.6
2. Private sector investment generated	£12.0mn	£15.0mn	£9.5mn	£10.9mn	£9.0mn	£11.4mn	£12.0mn	£12.5mn	£12.0mn	£11.5mn
3. Total investment generated	-	-	-	-	-	-	-	-	£23.0mn	£25.0mn
4. Full time equivalent jobs created/safeguarded	350	566	350	403	330	469	380	432	400	477
5. Wales' share of UK tourism spend	8%	8.5%	8.2%	8.0%	8.0%	7.9%	8.0%	7.4%	-	-
6. Wales' share of overseas tourism spend in UK	2%	1.9%	-	-	1.9%	1.4%	1.9%	2.1%	-	-
7. Proportion of UK Visitor spend in UK	-	-	50%	47%	50%	49%	51%	49%	51%	50%
8. Visitors to TICs (Sept-March)	1.4mn	1.45mn	-	-	-	-	-	-	-	-
9. UK direct marketing conversion rate	16%	24%	-	-	-	-	-	-	-	-
10. Hotel bedspace occupancy rate	44%	43%	-	-	-	-	-	-	-	-
11. Increase in overseas spend	-	-	+9%	+7%	-	-	-	-	-	-
12. UK Marketing Campaign Return on Investment	-	-	-	-	-	-	-	-	30:1	30:1
13. Increase in spend from primary overseas markets									+5%	+17%
14. Running cost limit	£4.094mn	£3.994mn	£4.086mn	£4.005mn	£4.510mn	£4.125mn	£4.211mn	£4.047mn	£4.457mn	£4.344mn