



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 18 November 2015

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ECONOMY, ENERGY AND TOURISM COMMITTEE
29th Meeting 2015, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Chic Brodie (South Scotland) (SNP)

*Patrick Harvie (Glasgow) (Green)

*Johann Lamont (Glasgow Pollok) (Lab)

*Richard Lyle (Central Scotland) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Lewis Macdonald (North East Scotland) (Lab)

*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr Mike Cantlay (VisitScotland)

Bruce Crawford (Stirling) (SNP) (Committee Substitute)

Marc Crothall (Scottish Tourism Alliance)

Malcolm Roughead OBE (VisitScotland)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 18 November 2015

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 29th meeting in 2015 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses and visitors in the gallery. I remind everyone to please turn off, or at least turn to silent, all mobile phones and other electronic devices so that they do not interfere with the sound equipment. We have apologies from Dennis Robertson, and we are joined by Bruce Crawford as a substitute.

Under agenda item 1, I ask members whether they are content that we take agenda item 4, which is a discussion of our future work programme, in private. Is that agreed?

Members *indicated agreement.*

Pre-budget Scrutiny 2016-17

10:01

The Convener: Under agenda item 2, we will continue to take evidence in relation to our pre-budget scrutiny of the Scottish Government's 2016-17 budget. This morning, we are focusing on tourism. I welcome from VisitScotland Dr Mike Cantlay, chairman, and Malcolm Roughead, chief executive; and from the Scottish Tourism Alliance Marc Crothall, who is the chief executive. Welcome to you all.

Before we get into questions, I think that Dr Cantlay wants to say something by way of a brief opening statement.

Dr Mike Cantlay (VisitScotland): Yes. I was going to give you the latest update on where we are in 2015. Clearly, 2014 was the big year and the committee has been through the success of 2014 in terms of the results and so on, so I thought that I would update you on where we are as we head towards the end of 2015 and information is coming in as to how we have performed in 2015.

In many senses, 2014 was the big year, but it was not so much about 2014. It was the catalyst, along with the other winning years 2012 and 2013, to kick Scottish tourism into the second part of the decade, but 2015 was always going to be interesting, because the reality is that many countries that host major sporting events incur an immediate draught after they have hosted them—media attention moves on and so on. Therefore, 2015 was always going to be interesting from the point of view of seeing whether we maintained momentum.

As we started the year, the environment looked particularly difficult. It was a period when the number of international visitors to the United Kingdom was taking a dip—London was particularly affected—and the big issue was the exchange rate. As we headed into 2015, we saw some profound shifts in exchange rates. The euro in particular moved about 15 per cent in the early part of the year, which is the selling period for us. Suddenly, Scotland became 15 per cent more expensive for our European visitors, and of course it works both ways—Europe became 15 per cent cheaper for UK visitors who were considering whether to holiday with us or abroad. The position with some of the other currencies was even more difficult.

As we moved further into the year, we had bad weather—which I do not need to tell you about, because you all remember it—in spring and summer. In other words, we had all the constituents of what we would expect to be quite a

difficult time. Of course, tourism goes in such cycles. Our objective was to get growth—that is what the winning years was all about—but it was also to get the cycle moving so that, instead of flatlining, it was going up even in the context of the peaks and troughs that we had, so 2015 was going to be a fascinating year.

We have the official statistics for only the first six months of the year; the committee has those statistics. They were very encouraging. I would anticipate the second half of the year being slightly softer. Apart from anything else, we were primarily comparing what happened against the big events in 2014, but as we head to the end of the year, by and large it has been a much better year than many had anticipated and perhaps a better year than we might have deserved, given the movements in exchange rates in particular.

So, here we are. It looks as though the industry has gone about approaching 2015 by trying to capitalise on 2014 and looking to the future better organised than ever before with, of course, the tourism Scotland 2020 vision. It would appear that we are in good shape to march on—the position on exchange rates in particular appears to be a little easier for us in the next period—and I am sure that that will be part of the discussion this morning. We are in good shape as we sit, and we are looking forward to the second part of the decade. That was a starter for 10.

The Convener: Thank you very much.

I do not know whether Marc Crothall wants to add anything or whether he is happy to go to questions.

Marc Crothall (Scottish Tourism Alliance): I would echo what Mike Cantlay said. The mood from the industry has been very positive and has perhaps surprised some people. There is a lot of confidence out there, but there is no complacency.

The Convener: Thank you. We have got about an hour and 15 minutes or so for this session. I ask members to keep their questions short and to the point. It would also be helpful if answers could be as short and to the point as possible. I ask members, initially, to direct their questions to one panel member. If panel members want to come in in response to a question that has been directed to somebody else, they should just catch my eye and I will bring them in as best I can and as time allows.

I will start off by asking about the Scottish Government's budget. We are in a slightly unusual position this year as regards budget scrutiny, because the budget has not been published—it will not be published until 16 December—so we are taking evidence in anticipation of the budget. With that in mind, I would like to ask both organisations, starting with Marc Crothall from the

STA, what your members would like to see in the budget. If you were making an ask to the Cabinet Secretary for Finance, Constitution and Economy today, what are the top lines that you would want to be addressed in the Government's budget?

Marc Crothall: We set out some key headlines in our policy agenda, which we issued on 30 September. I suppose that the main piece is around continued investment in the digital infrastructure. Taking on board the future approach by VisitScotland on the marketing strategies, it is absolutely essential that we are able to get more of our industry online, connected and capable of using digital. Tomorrow, there is the launch of a £1.2 million training programme to assist the industry in getting better skilled in that process. We cannot stop there—that needs to continue.

We are all absolutely behind VisitScotland getting a much-needed strong budget to enable it to continue to market and although we have enjoyed the benefits of 2014 and a good year in 2015, we cannot be complacent. We have to continue to be aggressive in the marketplace, so the funds need to be made available to allow us to do that.

We had some good discussion, which is on-going, about a funding support scheme for key destination marketing organisations that provide a good support network, not just to do the marketing of that particular destination but to deliver on a number of other initiatives in the local community for the benefit of the wider economy. Along with continued investment in skilling the workforce, I would say that those are the headlines that we have identified. We are going through a mid-term review of the strategy at the moment, and those seem to be the same themes in addressing what are being identified as the big game-change challenges.

The Convener: Thank you. I put the same question to VisitScotland.

Dr Cantlay: I will let Malcolm Roughead answer the question, but I would like to highlight what is a significant issue with the comprehensive spending review. When it comes to marketing, we work closely with VisitBritain and it does not know its budget yet, either. We understand that it will know that next week. That is a key feature, considering that we rely on VisitBritain in certain markets.

Malcolm Roughead OBE (VisitScotland): From our perspective, what we would like to do is build on the momentum that has been highlighted. That would mean looking at continuing the marketing activity. Marc Crothall has alluded to the changes that are about to come through the system. It is also a case of looking at channel-shift efficiencies. As you will be aware, we have been

moving from a pure broadcast approach to much greater usage of digital channels. That allows us to increase the reach and get out there to a global audience, albeit that VisitBritain is a key component of that. We will watch what happens with its budget next week and will have to realign accordingly.

You will be aware that we have relaunched the Scotland the perfect stage strategy. I will give a little plug for the conference on 3 December—if anyone would like to come along, you would be most welcome. That is about building on Scotland's capability and credibility when it comes to hosting world events—we would like to continue that.

However, we are realistic and pragmatic. Over the past five years, we have been trying to become as efficient as possible. That should get us to a place where we are able to respond to whatever comes our way.

The Convener: Thank you for that. I am sure that we will want to explore a number of the issues that you have touched on.

Marc Crothall touched on the issue of digital infrastructure, and I think that Joan McAlpine wanted to ask some questions on that.

Joan McAlpine (South Scotland) (SNP): Yes. I am particularly interested in digital connectivity. What problems does the tourism industry face in areas where there is not good digital connectivity? Perhaps you could address the issues of broadband and mobile connectivity separately.

Marc Crothall: I think that the consumer trend is that people are choosing to search and buy by using tablet. More people own a mobile phone than own a toothbrush and there will be more mobile phones in the world than there will be people, so that in itself tells a story.

To be competitive, it is necessary to be able to place your product online, to market it through the visitScotland.com sites and to have online booking facilities, and it is clear that where people are restricted in doing that they are missing out.

We have also made it clear in our position statement in our policy agenda that, from a price competitiveness perspective, the UK is currently ranked 140 out of 141, albeit that there is a strong skew towards the London cost centre. However, ensuring that we deliver things such as a quality of experience, high quality, value for money and a memorable experience is what the tourism strategy sees as our ambition.

What is now accepted as a basic requirement is not there. Scotland has the worst 3G coverage in the UK and 46 per cent of visitors were unsatisfied with wi-fi availability. We must respond to that if we are to live up to and deliver on the

expectations of the modern traveller. Business tourism is a sector that delivers £1.9 billion to the bigger picture. The country is now very well equipped to attract some of the big international conferences and conventions. When we do not have basic broadband or a reasonable pace of broadband and mobile connectivity, that puts us on the back foot when it comes to being competitive.

Joan McAlpine: I suppose that major conferences in big cities would not be affected. I assume that you are talking about areas outwith our big cities.

Marc Crothall: I drove from Glasgow to get here and I lost the phone signal three times. For Stephen Leckie, who is our chair and who is based up in Crieff, the best thing that came out of the Ryder cup was having 4G, whereas before that his connectivity was one to none and he could not get connected.

It is the rural parts that are most affected. I will be up in Inverness tonight to promote the business tourism for Scotland think Scotland, think conference initiative. We have infrastructure and properties that are very capable of attracting large-scale conferences and they need to have the technology and connectivity to do that.

Joan McAlpine: Has any calculation been made of how much we are losing out financially because of that?

Marc Crothall: Not that I am aware of—unless VisitScotland has done anything on that.

Malcolm Roughead: I will come back on some of those points.

For the past six to nine months, I have been going round the country talking to groups from the south to the north. On Monday, I was up in Shetland. The one topic that comes up at every group is digital connectivity, and it comes up more in relation to the competitiveness framework. There are five elements to that: the hardware; the capacity; the capability; the ability to convert business that is generated, which I think is the point that Marc Crothall was making; and using digital in communications.

As far as the hardware is concerned, broadband roll-out is happening. That is being managed by Highlands and Islands Enterprise on behalf of everybody, but we really need it to be in place before we can address the mobile issue, which is absolutely fundamental, because more and more people are using mobile. Part of the problem is that we are building on a legacy system. We are not in the position that some of the eastern European countries such as Estonia were in, whereby they did not have the lines in place, so they just went straight to mobile. We also see that

in India, which is probably one of the most advanced mobile business-enabled countries in the world. We are dealing with that and getting that in place.

10:15

Capacity is not just about downloading, but about being able to upload, and businesses have said that it is the upload capacity that they are concerned about.

Capability is very much about skills. A lot of the programmes out there are aimed at what I would call the digitally included, where the issue is about enhancing skills. However, what is coming through more and more is that a vast number of people out there are digitally excluded. We need to look at how we address that and how we make those businesses competitive.

You asked whether there were any statistics. Nine thousand businesses are listed on visitscotland.com, but only 30 per cent of them are able to transact online. That means that something like 6,300 businesses are missing out on that opportunity. As Marc Crothall said, people who come online want to book online; it is as simple as that. After all, 64 per cent of all bookings globally are made online.

There is a huge opportunity, but also a challenge, because we have to make sure that the programmes in place are bespoke and allow people to overcome some of the technical issues. There is also a certain fear factor. I guess that the analogy is that if you are an absolute beginner sitting next to a geek, you are going to feel slightly intimidated. Likewise, a geek sitting next to a beginner is not going to advance their own skills in the way that they would want to. A lot of good activity is going on, but a lot of work needs to be done to make sure that the activity that is being generated out there is being focused on the right areas.

There is also the issue of communications, how you use search engine optimisation, maximise listings, use dynamic content and so on, but, with regard to capability, that is slightly more esoteric and slightly further down the line.

Joan McAlpine: Do smaller tourism businesses face financial challenges in setting up websites and that kind of thing? I take it that it is quite a major investment. What support is available for those businesses?

Malcolm Roughead: There is business support through the business gateway, the enterprise companies and so on. Nowadays the actual cost of investing in that type of technology has come down significantly. There are many web booking engine providers out there; obviously, I will not

name any of them, but there are plenty available. Moreover, the cost of the software packages has, like anything over time, started to diminish. Businesses have to look at that as an investment that will be repaid time and time again.

Joan McAlpine: Earlier on, Marc Crothall talked about the visitor experience and visitors' expectations with regard to the ability to go online and, in particular, use mobile phones. Is the poor visitor experience of digital connectivity affecting our returners?

Marc Crothall: We are talking about the future generation of travellers and the young traveller in particular. Having young kids, I know that going to a place where there is no connection makes my life a bit of a challenge, and it means that we might not go back to that place again.

This is all about the future and the millennial traveller. I should say that we had a speaker from TripAdvisor at our conference in October. The fact is that people search for the best restaurants because they want to spend their money wisely and make the best considered choice. The ability to use technology, get online and access those applications in order to make a considered choice there and then is really important. If people are not able to do that, they might well not return.

With regard to a couple of points that Malcolm Roughead has made, I note that the £1.2 million training programme that is being launched tomorrow addresses the three tiers of capability. We in the working group have been conscious to make sure that the programme is not all targeted at those who are already engaged but includes those who might be scared or might be a bit more mature. In the rural parts, there are a lot of slightly more mature operators and lifestyle providers for whom the technology was just not around. Interestingly, when our tourism strategy was first scripted in 2011, it used the word "digital" only three times. The pace of change has been quite significant.

As for set-up costs to businesses, one of the STA's key objectives is to try to make access easier for, or provide more cost benefits to, our membership and the wider industry, and we have been working very closely with Microsoft and other partners to bring a product to the membership at very much a warehouse rate to enable businesses to equip themselves and get set up. It is all about dispelling the myth that this is expensive—it is not. When we talked to Bruce Crawford a couple of weeks ago, we mentioned a fund that can be accessed to assist small businesses around the digital piece. We have to get the message out to businesses that they have to get online, that they should not be afraid of it, that it is not expensive and that there is support in place to enable them to get going.

Joan McAlpine: I can see that you have been investing in training and in encouraging companies to get online, but if 3G coverage is not available to mobile phone users, there is not a great deal you can do. It is really a matter for the mobile operators and the Office of Communications. Given that it is all regulated at United Kingdom level, what would you like to see happen to improve the situation in Scotland? What needs to change?

Marc Crothall: There needs to be more collective and collaborative working between the providers to get them to recognise that this is the way forward. Licensing and the other things that go with that have to be considered. There is the ability to create and access applications that do not need coverage, and technology is being developed in that respect, but the pace of change needs to accelerate.

Joan McAlpine: Does the licensing regime need to change?

Marc Crothall: I am not fully aware of the detail, but I think that it is important to have conversations to get the providers more on the page—and quicker.

Lewis Macdonald (North East Scotland) (Lab): With regard to joining things up, I have already asked the Scottish Government about the UK Government's broadband discount voucher scheme that I think 3,000 businesses in Scotland benefited from. However, it has now ceased. Clearly, it was a good scheme that assisted businesses in upgrading to better and faster broadband. It has not been clear to me from the responses I have had from ministers whether there has been any particular joining-up of Scottish and UK initiatives. Has that sort of thing been apparent to the tourism industry? Do you have a sense that although good schemes are running they are not particularly connected to each other?

Marc Crothall: There are many good things out there, but the issue with some of them is finding them and then getting through lots of detail to access funding support. Of course, funding support for anything can be difficult to access at times. Using technology to get through the process makes it a lot easier, and there is also a time issue to take into account. One of the key objectives of working collaboratively with the enterprise agencies and the Government around the table is to cut some of the multitude of pages out of the system to ensure more direct access and create a greater awareness of what is on offer. As I said, I think there are plenty of things out there.

Lewis Macdonald: Is it fair to say, then, that you would like better clarity in this respect?

Marc Crothall: Anything that makes things clearer to industry and easier for it to gain support is always going to be beneficial. Time is of the essence. We are all working much harder, and the key thing is to clear away the reams of pages and other things that you have to get through. Money that is spent on that is probably well spent as far as everybody is concerned.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Tourism Scotland 2020, which is Scotland's national tourism strategy, talks about a target of

"generating an annual overnight visitor spend ... equating to an additional £1 billion or more by 2020"

but STA's written submission says that we are "currently not on track" to meet the target. I note that VisitScotland's corporate plan for 2011 to 2014 said that

"Tourism is an £11 billion sector",

but its corporate plan for 2013 to 2016 says that

"the visitor economy is estimated at £11.6 billion".

That estimate came from a 2013 Deloitte report—in other words, prior to the bumper year of 2014. If we are not on target to achieve the additional £1 billion by 2020, why is that the case, and what do we need to do to get back on target?

Malcolm Roughead: I should perhaps make a differentiation. The £6 billion or so that you are talking about is actually overnight expenditure rather than the visitor economy, which is the gross economic activity generated by visitor expenditure.

Gordon MacDonald: But presumably part of that growth would be overnight visitor expenditure.

Malcolm Roughead: Yes—and I will answer that point in just a second. However, I will throw in another figure at this point. The Scottish Government's latest figure for the visitor economy is £12 billion, which means that even more progress has been made since Deloitte came out with that £11.6 billion estimate.

Mike Cantlay talked about the 2015 numbers and the positive underlying trend in that respect. The UK overnight visitor expenditure to the end of July shows a 27 per cent growth year on year by value. If you extrapolate that forward, the likelihood is that by the end of this year we will come to a figure of £5 billion for overnight expenditure. That means that, to get to the bottom end of the scale in the 2020 document, you would need to grow by roughly 1.6 per cent compound annually. I am not that pessimistic—I actually think that we can do that.

Gordon MacDonald: My next question is about room occupancy rates. I understand that 2014 was a bumper year, but I also note that the occupancy rates for the past three years were 65 per cent in

2012, 68 per cent in 2013 and 70 per cent in 2014. Those figures are substantially higher than the position in 2000 or 2001. If we want to hit that level of spend, what occupancy rate do we need? In any case, is the target realistic?

Malcolm Roughead: Unfortunately, the position is not quite as binary as that, because of the fluctuation in the type of accommodation offer. We have a proliferation of Travelodges, Premier Inns and so on coming on to the market. For me, the issue is not the number of rooms, but their value. In some areas of Scotland, you are looking at yield maximisation rather than at occupancy, while in other areas you will be quite clearly looking at getting in volume before you can move up in terms of premiumisation—to use that horrible term. There is a mix—the situation is not quite as clear cut as you might suggest.

Gordon MacDonald: Do we have enough capacity, and if so, is it in the right places?

Malcolm Roughead: You have asked two questions there. First, do we have enough capacity? Currently, yes; in the future, however, we might not have the right type of capacity. One good example of that is the 2,850 five-star bedrooms that we have at the moment. If we are successful in the international markets, demand is going to grow in that particular area, and at the moment it is currently running at somewhere in the region of more than 90 per cent. In that respect, the issue is not volume, but growing that overall segment. That means that we need to encourage inward investment in the places where the demand is.

Gordon MacDonald: How do we go about getting international hotel chains to start investing in the parts of Scotland that need that investment?

Malcolm Roughead: There are two sides to that. First, we work very closely with Scottish Development International. As a result of that very positive relationship, there have been a number of projects; no matter whether or not they go through, the point is they have come almost to fruition.

Secondly, the national tourism development framework has brought together the 32 local authorities to examine gaps in provision and where investment is being made. I would like to see that become a bit more of a dynamic planning tool so that we can overlay the trends and look at where estimated demand will come from. That, in turn, will allow us to focus our efforts in a much more productive manner—indeed, we are going to have to do that as we move forward—and get on board the investors who are going to make the difference.

10:30

Chic Brodie (South Scotland) (SNP): Good morning. I will follow on from one of Gordon MacDonald's questions. I understand Malcolm Roughead's explanation about day trips and what have you, as well as the concession that the STA mentioned about not being on track to achieve the tourist numbers. How do VisitScotland and the STA relate to each other? Is there any overlap, including on spending or objectives?

Marc Crothall: We are all absolutely on the same page. We have the same—

Chic Brodie: That is what concerns me: duplication. Are you on the same page on operations or are the strategic lines—

Marc Crothall: We are not a marketing agency; we do no consumer-faced marketing at all. We are there to support and help cascade VisitScotland's initiatives, particularly around the focus years, and to try to encourage the industry to get on board with the various campaigns. We are working closely with VisitScotland on the growth fund application and on various steering groups. When it comes to dovetailing our strategic thinking for the future planning around tourism 2020 and where we want to go, the marketing element of that strategy is driven by the VisitScotland agenda, as is the events and festivals workstream. Malcolm Roughead alluded to the perfect stage strategy, and those things become the agenda.

Chic Brodie: A priority in your strategy is internationalisation. How are you capitalising on the internationalisation priorities from VisitScotland that may or may not have been set? We know that 85 per cent of our visitors still come from south of the border—I am glad that they are coming. When we carried out our internationalisation inquiry, we saw that good things are happening with our international objectives, but how is the work dovetailing?

Marc Crothall: The tourism strategy clearly spells out that 80 per cent of the marketplace still comes from the domestic market, so nobody is saying that the international market is the be-all and end-all. We need to prepare ourselves to go and get it—there is a lot of reference to China, particularly in and around Edinburgh—so part of the work plan that is being developed by the workstreams that flow from the strategy is about how we equip ourselves best to be able to service those international visitors as and when they come.

On the future marketing focus on specific key audiences, all the activity that we drive forward, whether through the skills investment plan or the workstreams in the various asset groups, will be targeted at and concentrated on the particular markets that have been identified by VisitScotland.

Chic Brodie: I have a question for Mike Cantlay and Malcolm Roughead. Last year, an additional £5 million funding was put in the budget for air route marketing and the golf legacy. Air route marketing is clearly important for internationalisation. Will you tell us about the £5 million spend? Also, what will happen when air passenger duty is reduced and eventually vanquished for ever?

Dr Cantlay: There were about eight different issues to respond to there. Let me just go back a bit. I find it reassuring to think back to my early committee appearances in 2010 and 2011, which were characterised by two issues. The number 1 issue was growth. The discussion was not about how much growth there was; rather, because there was no growth, the discussion was about how we could get it going.

Secondly, a key feature and a reason for my keenness to get involved in 2010 was the huge friction around who does what, VisitScotland's role and where the industry was. We were dealing with the aftermath of the area tourist boards being amalgamated into VisitScotland and so on. I remember that we made it very clear at that point that, at the end of the day, VisitScotland was there as a Government agency and an economic development agency, to deliver for industry and, in particular, to deliver the bits that industry could not deliver. If industry could do it for itself, our role would be diminished or nil. The difficulty that we had at that point was that we did not have co-ordination in the industry to express that viewpoint. What we have today and why industry is so much more comfortable with progress—I am not saying that about VS, other Government agencies or even the STA—is because it is so much clearer where we are. Why? Because we have an STA with a clear vision and ambition, industry can speak for itself, and VisitScotland and other Government agencies can get on with answering the points that you have raised. You did not ask Marc Crothall—and I cannot remember the answer—how many staff he has.

Marc Crothall: We have a core team of four—

Dr Cantlay: There you go. At the end of the day, the STA is limited in what it can physically do as a relatively small organisation, but in its role as a catalyst, pulling together industry and defining that vision, it is hugely important and it has made life so much easier.

To answer Chic Brodie's specific questions, I will do air and Malcolm Roughead will do golf, because he is a better golfer than me.

The issue of air and lift, as it is called in the industry, is crucial. We have made huge progress over the past few years. We have almost 100 new international air routes into Scotland that have

come to one airport or another. That has been significant in helping Scottish tourism. If you were to ask me, "What is the real big issue in this area?"—

Chic Brodie: What is the real big issue in this area?

Dr Cantlay: That is a good question. The big issue is London. You will then say, "Oh, here we go, we are getting into runways and all the rest of it." Actually, it is a shorter-term issue of the movement in the marketplace in the use of London. Many markets are used to using London to get to Scotland, and that is changing dramatically. For example, we have just lost Virgin's connecting service to London, which provided about 300 international connecting seats a day to Edinburgh and Aberdeen. That is a lot of seats.

The issue is not just about the access, but about the networks and alliances and how the airlines work together. It is also about the pricing models, because whenever there is a capacity restriction pricing tends to be pushed up. Pricing and value in air travel, particularly medium and long-haul travel, have become a big issue for us, and Scotland rates as being quite expensive to access from some, but not all, medium and long-haul markets. We are working hard on the issue. I suppose that, in a sense, the route development initiative is working more towards broader themes of connectivity where it is not just about point-to-point connectivity but about ensuring that we are properly plugged into the airline networks and alliances to ensure that customers can get here easily and affordably from wherever they are in the world.

Chic Brodie: Have you assessed the impact of a reduction in APD?

Dr Cantlay: I forgot to mention APD. On the value issue, APD reduction would help hugely. We are hugely supportive of anything that makes Scotland more competitive; value is a core issue, particularly given the issues that I explained with exchange rates. A reduction in APD would be very welcome. Indeed, the airlines and the travelling public have made it very clear that that would be very welcome to them, too.

Chic Brodie: Thank you. What is the position on golf?

Malcolm Roughead: On golf, the legacy around the Ryder cup continues through investment in the major events that have been secured all the way through to 2020 and beyond. The biggest challenge for us is to make sure that the activity that we run in conjunction with the likes of NBC and others is maximised here in this country not just in terms of visitor numbers, but in terms of making sure that those trickle down into

the clubs, with the clubs in turn becoming more proficient in their business practices. The Solheim cup will give an extra fillip to that. We are absolutely delighted that we have managed to secure that for Scotland.

How do we position those events? You will be aware that there have been a lot of conversations around the tour about taking the Scottish open as one of the beacon events on the programme, which would attract the major players who are on the European tour and those who are based in the United States and who perhaps do not come to Europe as much as we would like them to. That is not just about the immediate economic benefit, but about the knock-on effects, such as trying to get kids into golf, which then feeds back through the system. The hope is that we end up with an inclusive sport that is affordable for everybody.

Chic Brodie: You and I had a conversation just last week about opening up the Scandinavian route to—dare I say it?—Prestwick, and for that route to continue on to Ireland, thereby creating a western European route. Will you consider and take that forward? I know you have talked to Ryanair before, but the conversation does not just have to be with Ryanair.

Malcolm Roughead: No, that is right. There are a couple of elements to that. There are the tour operators, who would have to make sure that they have in place the programmes. We have to ensure that they get the support that they are looking for. Obviously, there is also the issue of how we get the tourists here.

To return to aviation, the success of—please forgive the pun—the landing of the Aberdeen-Reykjavik route in itself will help. We are able to take people not just into the central belt but, with BA flying to Inverness, further afield. That has to be a good thing for rural economies, which are pretty fragile.

The Convener: Three members want to come in with supplementaries. I am assuming that they will be about air passenger duty, initially. We will start with Patrick Harvie.

Patrick Harvie (Glasgow) (Green): Good morning. VisitScotland did not mention APD in its written evidence, but the issue has come up in discussion. However, VisitScotland's written evidence makes it clear that aviation levels have continued to increase. It is clear, is it not, that APD does not prevent aviation levels from increasing?

Dr Cantlay: APD is a factor, but we have been successful in attracting more people to come and see us with aviation if that is your—

Patrick Harvie: APD has not prevented that from happening.

Dr Cantlay: No, APD has not prevented it from happening, but APD in the UK is well known as an issue throughout the trade—I do not just mean in the airline industry, but in the travel and leisure industry—and it is deemed to be a barrier for sure. It has not—

Patrick Harvie: It is widely spoken of in those terms, but the figures show that aviation levels have increased.

Dr Cantlay: That is perfectly fair, yes.

Patrick Harvie: We are talking about the most environmentally destructive form of travel that is available. Scotland has long-term and fairly ambitious targets to reduce CO₂ emissions, and every extra unit of emissions that comes from the aviation sector means that the rest of the economy needs to work much harder to counteract those emissions and keep us on track. How much increase in aviation is affordable within our carbon budgets?

Dr Cantlay: Your point is well made. The biggest issue for the international travelling consumer and the airline industry is greening the industry. Huge steps have been made in that regard. If you look at the fuel use per passenger today versus 10 years ago and all the rest of it, you will see that great progress has been made. I am sure that we could debate the extent to which enough progress has been made, but—

Patrick Harvie: The same is true of road traffic, but the overall emissions increase because the level increases—

Dr Cantlay: I understand that.

Patrick Harvie: —so we cannot rely on that. I am asking how much we can afford to increase emissions and have the rest of the economy carry the extra weight from the aviation sector.

Dr Cantlay: The aviation industry is, of all the transport industries, working very hard to green its product. At this pace of change, international consumers are showing all the signs that they are pleased with the progress and worrying a little less about the issue as they travel.

At the end of the day, it makes a difference which market we are talking about—travelling over water is different from travel within the UK market, where there are alternatives.

Patrick Harvie: You cannot put a figure on it then?

Dr Cantlay: I do not think that I can put a figure on it.

Patrick Harvie: In which case, is it not a little reckless to take away a restraining factor, if that is what you think APD is, until we know what the consequences are going to be?

Dr Cantlay: At the end of the day, for many of the markets and particularly for the medium and long-haul markets—as I said, it depends on the specific market—people will fly, and we want to encourage them to come and see us.

10:45

Patrick Harvie: Is that the case regardless of how much harder the rest of the economy needs to work to counteract emissions?

Dr Cantlay: I appreciate the point, but our job is to encourage people to come from around the world. We want people to come and see us; that is the game that we are in. That is our job.

Patrick Harvie: Perhaps the Scottish Government should at least be able to answer the question before we approve the policy change.

Gordon MacDonald: Before I go on to ask my question, I will follow up Patrick Harvie's point. Would having more direct flights, rather than flights that go through the London hub, not resolve part of the problem that Patrick raises?

Dr Cantlay: It depends on the market, obviously. You will notice that I am talking about medium and long-haul markets. The European short-haul situation is particularly competitive, but it works well and capacity is strong. Ryanair and EasyJet, for example, work hard to fly at full capacity, which also helps. It is market against market.

One of the key trends that we are seeing now is the consequence of alliances and networks, and it links to the digital debate and the transport debate. As digital continues to develop, big business will follow big money. A bigger issue for Scottish tourism will continue to be how the big business community—airlines, hotels and so on—works in teams, alliances and networks to its own advantage but potentially to our advantage, too, if we are well plugged into them.

Gordon MacDonald: My question is about your earlier point on the importance of the London airports to the tourism market. Over the last 10 to 15 years, Edinburgh and Glasgow airports have developed links with other hubs—Istanbul, Schiphol, Dubai, Doha, Charles de Gaulle and so on. Are they of equal importance to the London hub, and do they provide a greater opportunity for growth?

Dr Cantlay: We work very hard. Malcolm Roughead could talk for the next eight hours about how we are working up our hub strategy and so on. You are exactly right.

The situation is probably more profound. Let us look at the Australian market. If someone was travelling from Australia to Scotland 15 years ago,

they would have had to fly to London, whereas today someone who flies from Australia to Scotland is very unlikely to go anywhere near London. BA is the one airline that flies one flight a day through London. Whichever other route people take, they will not go through London, and we are seeing that kind of profound shift as we work around the world.

However, in Australia, you will still speak to customers who tell you, "Well, obviously, if I am going to Scotland, I am going to London". We are talking about profound shift, and we need to ensure that not just the links but the communication are in place to ensure that people know how to get to us easily and for the best value.

Lewis Macdonald: You talked about the importance of the London hub; decisions on that will be taken elsewhere. Is there anything that the Scottish Government should be doing or that VisitScotland wants to see being done about those links?

Dr Cantlay: We work very closely with the Scottish Government's excellent team. I know that, as soon as we talk about London, you immediately think that we are opening the runway debate, but the debate is broader than that because it takes in competition and airline movements.

For example, Virgin has withdrawn from Scotland. When it came to Scotland, it was half owned by Singapore Airlines, which is a Star Alliance partner. Singapore Airlines sold its shareholding to Delta—that was a shift in its strategy. In aviation, we play in a game with very large multinational companies and airline networks, and we need to be flexible. I am sure that I have told the committee previously that our loss of the BMI link into the Star Alliance network in London was profound. There are 20 million people using that terminal but no airline flies out of terminal 2 to Scotland. We need to take those market shifts into account, but the actual physical links and the pricing models are very important for Scotland.

The Convener: Before we leave the point, what is VisitScotland's view, if it has one, on the runway issue?

Dr Cantlay: We want to encourage as much access to Scotland as possible. There is an issue in London and we would be delighted to see the capacity issues ease. We do not favour any specific runway, but this morning we have said that there is a clear issue in London that causes us great anxiety in the short term. A lot of people who come to the UK want to visit other parts of the UK, particularly London as well as coming to Scotland, and their ease of access is important.

Bruce Crawford (Stirling) (SNP): We have been around the houses a bit for good reason, but can I bring us back to the issue of hard cash and value for money? At the end of the day, how you spend Scotland's money will decide how much budget you get and how successful you are, and, by all accounts, we are heading into another very tight settlement period.

You have spoken about this before, but your figures tell us that, for every pound you get, you put £20 back into the Scottish economy. Can you tell us a bit about the methodology that you use and how you compare against VisitBritain? That would be helpful. I will then ask you a quick question about budget numbers.

Dr Cantlay: Okay. I will let Malcolm Roughead answer that.

Malcolm Roughead: The current way of measuring the return on that investment is by measuring the additionality—simply put, money that was spent by visitors to the country when they were influenced by VisitScotland's activities. If they were coming anyway or thought they would come anyway, we discount that. I am talking about people who have been convinced by our activity to come to the country. That gives us an additionality figure.

There are other ways of doing that. We have been working with the Scottish Government to look at gross value added and the impact on jobs. The methodology has been agreed so we will be able to report in another way on the gross economic activity that has been generated, how that translates into what we call new money, and what that means in terms of GVA and the number of jobs.

The methodology is robust. VisitBritain uses the same methodology for getting additionality and GVA. London & Partners uses the same methodology, as does Visit Wales. We are doing exactly what others do for comparable purposes. I think that I am correct to say that VisitBritain generally reports return on its activity of about 8:1.

Dr Cantlay: The answer to your question is that it depends on the targeting of the market. Are you going for low-hanging fruit or emerging markets? It also depends on the competence of the campaign. A 20:1 average is very much the market average for a national tourism organisation doing a well-researched campaign.

The more pertinent point is that Scottish tourism is minuscule in global terms. You might be thinking, "Okay, so we give you £1 and you can get £20 back into the economy—even in terms of VAT, given that Scotland will receive some VAT directly. That is great. We will give you more money and you can give us more money back." The issue is, however, that every national tourism

organisation that has a good product and puts together a good campaign can perform at that level, so the competition is becoming far greater.

America did not have a formalised approach with a national tourism marketing organisation; it now has Discover America, which is extremely competent and has vast resources. When somewhere such as America comes into the marketplace, you are up against some serious competition. The difficulty with having such great returns is that everyone is now chasing them at a time when Government money is tight. We are going to have to fight harder, frankly, for the resources that we have.

Bruce Crawford: Taking those numbers as read, they say that, based on that methodology, the public purse is getting a good return. The figures for the year to June were very good—they included the Commonwealth games and the Ryder cup—and 2015 has been better than we expected in the circumstances.

However, the challenges are out there, whether in the continuing strength of the pound, the general sluggishness of western economies, and now the potential impact on the industry of the tragic and terrible events in places such as Egypt and Paris—we do not know the outcome of that yet. If you take £5 million out of your budget, which has been stripped out for this year, and you get the same in 2015-16, you will be £9 million down on where you were previously. Is that really enough to do the job that you need to do? That is the hard question I have in my head. At the end of the day, the committee needs to make a recommendation to the Government. It might be difficult for an economic agency to reflect on that, but I would like you to try anyway.

Dr Cantlay: You are asking me whether we would like more money, and the answer is that we would like more money.

One of the potentially significant things that we have not explored fully is that we are judged to be a national tourism organisation—like visit this, visit that and visit the other. VisitBritain does international marketing but it does not do an awful lot more. VisitScotland does an awful lot more in information provision, quality assurance and so on. However, people consistently tell us that, first and foremost, we need to be doing hard-core marketing of Scotland, particularly across the UK but also internationally. That will continue to be our thrust—that is right and proper. We are doing everything that we possibly can to find every penny of resource to market Scotland as hard as we can and, as the competition becomes ever stiffer, we will continue to have that as our mantra.

Marc Crothall: I support Mike Cantlay in saying that the world is a much smaller place and the

competition is much tougher, so you have to be out there. International markets prove to need a greater spend. That is where the prize is, and it costs money to get there. In the industry's view, stepping back or even staying still would be the wrong thing to do. Put more into it and try to maximise your return, but at least fend off the competition.

Bruce Crawford: You just said that we need to get out there, and the fact that we get £20 back for every £1 spent suggests that, if we got out there a bit more with a bit more leverage, we would get more money coming back into the economy, creating more jobs. I know that nobody has said yes, and you cannot put a figure on it, but your general tone tells me that, if there was at least a standstill and hopefully an uplift in your budget, it would help us to get more jobs in the economy. That is what this is really all about.

Dr Cantlay: That is right. You noted that I mentioned VisitBritain pretty quickly in the discussion about the comprehensive spending review. VisitBritain's role is complicated. In our submission, we show how we focus our international marketing as best we can in the United States, France, Germany and a bit in Australia. For the rest of the world, we depend heavily on VisitBritain. If I remember rightly, VisitBritain's network of offices was cut from about 36 to about 21 during the previous major restructure. The industry is anxious that it is going to have to face some tough choices after the CSR statement next week. In turn, that will bring up some tough issues and questions for us. We have one single member of staff based abroad—in Toronto as it happens—and they focus on business tourism. We are heavily dependent on the VisitBritain network of 21 offices and that might mean something of a refocusing if those challenges come to bear.

11:00

The Convener: I know that other members are waiting to come in, but I have a quick follow-up question on quality assurance, which Dr Cantlay mentioned a moment ago. I think that you said that VisitBritain was not involved in quality assurance. If budgets are going to be tighter, does VisitScotland still need to be involved in such work, particularly in the era of TripAdvisor and a range of private sector competitors in the market?

Dr Cantlay: I will let Malcolm Roughead answer that, but first I remind Marc Crothall of one of the benefits of the STA being so well connected in the industry. When I came to speak to the STA, I said, "Look, you guys need to be clearer, not about what you want but about what you do not want." The immediate answer to your question, convener, is that the industry says, "We must have a quality

assurance scheme," along with various other things, when in fact we are going through a period in which we will inevitably have to make some choices.

Marc Crothall: That is absolutely true, but protecting the brand and the reputation is key, and the quality assurance scheme provides a channel for that. Whatever we say, the consumer will still look for a badge of appeal. We have all seen varying reviews on TripAdvisor, and people can choose to believe what they want. However, our scheme reaffirms our commitment to professionalism, and without such a scheme we would be very exposed.

Nobody has mentioned Airbnb yet. It is the fastest-growing hotel company in the world, with no quality assurance or regulation, and no contribution being paid in tax. That is admittedly the consumer's choice. However, can we be assured that people's experience of Scotland when they stay at an Airbnb site or in a non-quality-assured property will deliver against the aspirations in our strategy?

Malcolm Roughead: To come back to the convener's question, quality assurance washes its face in budgetary terms. It costs £1.3 million to deliver, and we will bring in that £1.3 million in revenue.

The wider question is more to do with what quality means, and what it will mean in five or 10 years' time, particularly with real-time assessments taking place—as you mentioned—through the likes of TripAdvisor. We know from research—not just our own research but work by the European Travel Commission and the United Nations World Tourism Organization—that at present people still use both methods. They look at the comments that are posted online, but they also want reassurance that there is an independent, authentic assessment out there so that they can balance the extremes in the postings.

It might be quite interesting to look at—and I have asked my team to do so—how we combine the requirements for quality in a digital age. Is it only about attractions and accommodation, or is it about a destination? If it is about a destination, do we look at a net promoter score—the total holistic experience that someone gets, not just their accommodation? We will take some work forward on that.

Lewis Macdonald: Marc Crothall spoke about looking for support for destination management and destination development, and Mike Cantlay recounted where we were five years ago and how the situation has changed in terms of who is responsible for what. I wonder how the STA and VisitScotland see that being rolled out. Given that

Governments have to make choices about priorities—as we discussed—how significant is destination management in the bigger picture? What is the right relationship between central Government—as opposed to local government—and destination management organisations?

Marc Crothall: That is a good question. As you know, a working group carried out a survey within the industry, looking at destinations and the disparity in support funding for cities and for rural communities. Glasgow City Council is putting £5 million into the tourism project, while the City of Edinburgh Council is putting in £1 million and Aberdeen City Council is putting in a lot less. The rural DMOs—particularly in the islands, where they do a lot more than just marketing—depend on having some form of assured stability that gives the industry the confidence to put its hand in its pocket and part fund that work. Nobody is saying that the industry could not do more to contribute towards the funding of DMOs.

There are some great examples of support funding that has accelerated industry commitment. For example, the Argyll and the Isles tourism partnership model is superb. The partnership is progressive not just in its marketing activity but in developing the local economy by bringing other businesses—not purely tourism businesses—into the mix. The further afield and more rural the area, the greater the percentage of the population working in our industry.

Since the STA first came to the fore—we are only four years old—we have had a council of 40 sectoral groups. Many of those are destination organisations, and they are active and voluntary bodies. Every one of those groups has managed to grow in size and scale because a common framework has been adopted and there is an aspiration to do so. We need to provide at least a baseline of support to between 35 and 40 destination bodies, rather than the 300 or so tourism groups that we were led to believe existed two or three years ago. The number has shrunk, but there are key pockets such as St Andrews, the Hebrides, Oban and Argyll and the outdoor capital.

Dr Cantlay: It is often said in Government that if you wait long enough, you end up back where you started. Tourism is a good example of that. In the late 1970s and early 1980s, there were many organisations all over the country. There were destination groups and trade organisations that needed some form of co-ordination. We had around 35 area tourist boards at that time, but it was decided that there were too many and we moved to 14 instead. It was then decided that we would not have any, and we suddenly ended up with literally hundreds of little groups all over the country. I remember coming into that environment in 2010. There was a lot of debate about who did

the marketing, who was responsible for what and so on.

We tried to help by explaining that those groups are the product in that location, and that the more strongly they—as a group of businesses—can define the product and be clear what they are and what they want, the easier it is for VisitScotland in particular to take the product to market. In many senses, we are the customer. We have all the research and data on the customers from London, Paris, New York or wherever, and it makes things much easier when everyone understands where we are and what we are doing.

You could draw a flow chart to show how a new destination organisation works its way through and evolves. It does marketing; it does some things and then other things, and realises that one thing works and another does not; it spends more time focusing on getting stronger at defining its product and establishing where it needs help in moving forward. The groups have all evolved in different ways, but the work is going well. There is far more comfort as to who does what these days, and that will evolve further. I think that we will see a bit more consolidation, and that the groups will be better able to define where they need Government help and where they do not.

Marc Crothall: Specifically, we have the tourism 2020 strategy as a national framework, which has been adopted by between 25 and 30 different destination groups and by some of the sectoral groups. That gives us a huge amount of strength and makes us better able to refine and make efficiencies. We can identify a need for investment and make choices much more simply, so there is no need to reinvent the wheel. Localising those strategies is key. A key part of a destination group's remit is to bring in those businesses among the 7,000-plus that are yet to get on the visitscotland.com site, and get them online and connected. That is a DMO's most important role, in addition to providing a bit of support for the marketing efforts of VisitScotland. They are key, but not everywhere.

Lewis Macdonald: Yes—that is the point. I am hearing from both of you that DMOs should be able to access public funding, but neither of you is looking for a formalised, comprehensive structure of public support.

Dr Cantlay: The concept of the growth fund helps us with the themed years and so on. It works both ways, in a sense. We are encouraging destinations to partake in the campaigns so that we can bolster our activity, but it is a route for the DMOs to access marketing funds, event funding and so on. I think that it has worked well.

Marc Crothall: We have produced a paper that looks at the sportscotland model, which allows a

pot of money to be drawn down for those destinations that can deliver on key projects and initiatives. Ultimately, however, we want the industry to contribute and support. When we entered into the spirit of the tourism Scotland 2020 strategy, our key message to the industry was that it was not just about saying, "There is a strategy. Public purse—pay for it", but was a two-way thing.

The support from the industry will come if businesses know that there is assured continuity of resource to enable a destination to be sustainable in the long term. At present, a lot of that is fairly up and down. Decisions on where funding is awarded should be measured by criteria such as whether organisations deliver and whether they give us a return on the investment, rather than taking a blanket approach and giving £10,000 or £50,000 to 35 or 40 destinations across the piece, because it does not work that way.

The Convener: I have two members waiting who have been extremely patient, but first I will take a brief supplementary from Gordon MacDonald.

Gordon MacDonald: My question is on Mike Cantlay's point about the reduction in the number of VisitBritain offices around the world. I wonder whether there is an alternative in the Scottish Enterprise network, which has 30-odd offices in some key markets. I realise that there might be budgetary implications, but would that be an alternative, given that VisitScotland and the Scottish Enterprise network both want to grow the Scottish economy?

Dr Cantlay: Let me be clear: the drop from 36 to 21 offices happened some time ago. Further cuts may be needed in light of the comprehensive spending review, but we do not know yet.

We take every opportunity to use anybody we can when we are abroad. We use VisitBritain and Scottish Development International offices, and we work under the auspices of the Foreign and Commonwealth Office and with anyone else who can help.

The best way to differentiate those approaches is to highlight that VisitBritain is very important to us because of its links to specific trade partners and particularly to the consumer in the marketplace. VisitScotland also focuses very much on the consumer, whereas SDI's focus is more on business to business than on business to consumer. The two organisations do different jobs in the international field, but I assure you that, wherever we are and whatever we do, we work closely together.

Richard Lyle (Central Scotland) (SNP): Good morning—I have two questions, but first I will ask a quick question that just came into my head. Most

European countries now charge a tourist tax. In Scotland, local government is complaining that there is very little funding. Should we encourage a tourist tax in Scotland so that local councils can get that funding? Yes or no?

Dr Cantlay: No.

Richard Lyle: I will move on to my second question—I knew that that one would not fly.

Dr Cantlay: You said yes or no. I will try to interpret that answer a little.

The issue is that a tourism retailer or a hotel will tell you that there is already a tourist tax, which is their commercial rates bill. I am particularly anxious, given the movement of exchange rates just now, that, while we talk a lot about quality in Scotland, which is entirely appropriate, we should always bear in mind value, especially against our competition. At the end of the day, for the customer, it is just a hotel bill or whatever. We are thinking about where we are and how we are trying to fund things, but we also need to think about the consumer and how Scotland rates continuously in terms of value. We need to ensure that Scotland is always good value for our visiting customers.

11:15

Richard Lyle: I would agree with you about best value.

I will move on to how you do your marketing, advertising and campaigning. You state in your written submission that you have 20 million people visiting your website; you are looking to work with TripAdvisor to reach 500 million people; you currently have a campaign to the value of £360,000 to promote the Borders railway; and you have international campaigns in North America, Germany, France and Australia. However, what I particularly like is that you state that you are targeting your campaigns "at the best prospects". What are the best prospects? What about China? We see from the television that a lot of Chinese are now visiting other countries, so that is a massive market.

How do you decide where your campaign money is going to be spent for the next year? Do you sit down in a room on one day and decide that, or do you do it weekly, monthly or continuously? I realise that you also try to attract conferences from around the world to Scotland. How do you decide how and where you will target your campaigns?

Malcolm Roughead: That sounded like one of our board meetings. [*Laughter.*]

Richard Lyle: I will come along one day.

Malcolm Roughead: Please do, and bring the answers with you.

The easiest prospects are those visitors who have been to Scotland already. We have already gone through the difficulty of selling to them, they have been able to experience the product and they have gone away with what we hope is a great experience. VisitScotland uses a database of about 8.5 million people, which is very much about the returning market from numerous countries not just in the UK but internationally.

For the other market, those who have never been to Scotland, we go through a market prioritisation exercise that is based on expenditure by visitor and propensity or likelihood to come and visit Scotland so that we can benchmark ourselves against some of our competition. Our most notable competitor is about an hour's flight away, so I do not have to mention it.

We then consider what that market is looking for and whether we have the product fit to meet those requirements. That takes us on to consider the size of the market. In Germany, for example, it could be about young travellers who are interested in culture, events and so on. We are able to break that down and we then build up a picture of what that market looks like, the sorts of things that those young travellers are interested in and how close they are to airports. For example, Nordrhein-Westfalen has a market of 27 million people, so we do not go after Germany but go after specific regions. In North America, we would go after the eastern seaboard market, because we know that the propensity to fly to Scotland from there is greater.

I do not talk about China; I talk about Shanghai as an area because we do not have the resources to do big countries—no one has. Even in my previous days with Guinness, it took us 10 years before we rolled out of Atlanta and places like that, because America is such a big and expensive market to get into.

We have a very focused way of marketing, which takes quite a lot of work and effort. We have just gone through a repeat of the exercise in the past nine months. The market priorities for us are as you articulated: near Europe; North America; and some tactical opportunities in Australia and Canada. The UK is by far and away the biggest market, but there is some team Scotland activity in Brazil, Russia, India and China, which is about focus.

We looked at what the trends in 10 years' time might be, and do you know what? The top 10 were still going to be the same. Yes, there will be changes. In that regard, someone mentioned earlier the events that have happened in Europe just recently. However, we have to be prepared for

all that. The one sure thing about tourism is that there will always be something happening that will affect it. In the year that I joined VisitScotland, 9/11 took place, and we have had all sorts of crises year on year. We prepare for moving and being agile enough to switch our resources into the areas where they have to go. I always refer to it as being a bit like having a balanced portfolio of shares: some will go up and some will go down, but they will never all be at the same level at the same time.

Dr Cantlay: There is another feature, which is, if we are blunt about it, just reality. We do not have the hard-core marketing resource to compete in the same way as many other competing destinations. For example, from time to time people say, "Ireland does a great job in America. Why is Scotland not so obvious there?" However, the truth is that Ireland has many times more money to spend in that market than we do. However, we are cute in how we do things and we focus on opportunities such as Scotland week, which is a classic example. We focus particularly on our USPs—unique selling points—which are so crucial for Scottish tourism because we have unique features to exploit, be it golf or whisky.

The one thing that we have not discussed this morning that is so important to appreciate is that we have a USP that, if not new, is now more widely appreciated and has become very prominent and clear over the past couple of years, particularly through the Commonwealth games but also through the Ryder cup and the homecoming programme: the Scottish people. Out of all the features that attract people to come to a destination, the people bit is crucial. We have talked for long enough about Scottish tourism being everybody's business in Scotland, but we have never been closer to that. When it comes to those big events, everybody gets out to be part of the experience and to help provide that ultimate welcome to our visitors. That has rocked right across the world and is one of our strongest assets.

We play to our strengths. I think that we are very good at doing that and have some unique strengths to play to.

Johann Lamont (Glasgow Pollok) (Lab): I note that VisitScotland's written evidence refers specifically to VisitScotland "delivering the Growth Agenda". You will of course know that the Scottish Government now talks not just about growth but about sustainable growth, with particular emphasis on the importance of fair work. What meetings have you had with John Swinney and Roseanna Cunningham to address those questions in your sector?

Malcolm Roughead: I will define first what we regard as inclusive growth. We have talked about

digital inclusion in that regard, which we think is fundamental, and geographic inclusion. The tourism industry stretches all the way from Shetland down to the Borders and it is vital in fragile communities in rural areas and the islands. We have promoted geographic inclusion for quite some time, although perhaps not under that banner and perhaps not so overtly in the past as at the moment, but it is very important.

Inclusion is also about the skills agenda and young people, and trying to get them into the tourism industry and seeing it as offering a career that they can develop and progress with, rather than just as a last-gasp means of finding employment. It is much more than that. All the skills that they will learn in the industry are transferable and can be taken with them, whether to elsewhere in Scotland or overseas.

Inclusion is also about how we work with communities, which is quite important to us. Going back to the earlier DMO discussion, the people in the local communities bring the knowledge, the energy and the passion, which is what we need for the content that we are marketing with TripAdvisor, Google or whatever. We have to work with people in those communities and give them a sense of ownership, which I think has been the biggest change over the past few years. People can now see that they own the tourism industry and are part of it, and that we are there only to help support them and help their communities.

On the specific issue of the living wage, VisitScotland has applied for accreditation as a living wage employer—I think that it is important to show leadership in that area. I do not think that anyone has a problem morally or ethically with the living wage or the business pledge, but I think that we all recognise that there are one or two issues in our industry that we need to address to be able to get some of the smaller businesses on board.

Johann Lamont: Have there been specific meetings with cabinet secretaries to establish targets for you? What demands have been placed on you in terms of addressing the question of fair pay?

Malcolm Roughead: We have not been given any specific targets to address. What we have been asked to do is work with the industry to make sure that we are able to address issues that some of the players in the industry might have. I know that Marc Crothall and the Scottish Tourism Alliance, and the British Hospitality Association have had quite a bit of representation and meetings with—

Johann Lamont: But have you had meetings with cabinet secretaries to outline to you how they think their commitment to inclusive growth and fair

work would be expressed through a growth industry such as the tourism industry?

Dr Cantlay: I think that that has been done through the strategic forum specifically. I am not going to explain the full context of the strategic forum, but we and other enterprise agencies have heard from all the relevant ministers as to their hopes and aspirations in this field. In terms of direct, specific targets, I am not sure that we have specifically been—

Johann Lamont: So there are no milestones. The issue is that we know that your sector is labour intensive. Our figures show that 72 per cent of employees in 2014 were being paid below the living wage. We know that, across the United Kingdom, 40 per cent of employers in the sector rely on or use zero-hours contracts; across all sectors, that figure is only 11 per cent. Those are two areas that, in terms of inclusive growth in a sector such as yours, are going to be critical in making a difference in terms of fair work. You have more people who are in jobs that might be defined as low paid and unstable. What specific things are you now planning to do to address how critical your sector is to improving the fair work landscape across Scotland?

Marc Crothall: There are a number of key factors here for the industry. From an industry perspective, nobody is saying that they do not see and endorse the principle of the living wage. However, it is well documented that the blend of the workforce is very varied, and the challenge for many is to balance the bottom line. We have made our views felt on those issues. The question is about what can be done, without increasing prices and while maintaining competitiveness, to offset some of the incremental costs that a living wage will bring.

Malcolm Roughead alluded to the fact that one of our key actions in the skills investment plan is to raise the profile of the sector to try to enhance it as a career of choice. We need to remove some of the stigma around it being a default industry with poorly paid jobs. We have some very highly paid personnel in our industry and we accelerate career opportunities quite rapidly. However, the impact of the new national minimum wage will mean that there is risk to some of the big players out there in terms of meeting their covenant. It could stifle investment for people who are genuinely looking to grow their business and are capable of doing so, so there has to be a bit of give and take. The licensed trade sector is probably suffering more than most, and it needs volume to come through.

There are workstreams going on around productivity and we are looking at how we can address the leadership piece in a stronger sense to try to negate some of the issues around being dependent on a low-paid workforce and to redress

the balance of the workforce within businesses. However, we have gone on record as saying that the industry absolutely supports the principle of the living wage because we aspire to be seen as an industry that has professionals and attracts the right people.

Johann Lamont: I just wondered whether there was a connection there. I agree with you that there is an issue with attitudes towards retail and the hospitality industry, but surely those attitudes are informed by the fact that people in those sectors are less likely to have job security or be in reasonably paid jobs. I accept that you recognise the principle of it, but what is VisitScotland doing, as an economic agency? What are you asking of Government to support you to move towards that? The industry is trying to manage it. What should we be asking the Scottish Government to make support to the sector conditional on? Perhaps there should be progress on the living wage or on less use of zero-hours contracts. In a sense, that is a question not for the industry but for the agency.

11:30

I was concerned earlier when you almost seemed to define a cut in APD as being more competitive. Surely there is an anxiety that, if you have that concept of competitiveness, what is to stop the competition then being about wages and conditions? How does the Government support the industry to shift from that being the focus of competitiveness to make the focus, for example, the quality of delivery or how people deal with the public?

Dr Cantlay: It is a huge issue. Your point is well made. There is a huge amount of discussion in the industry about how it should respond. That does not answer your question but compounds it in a sense.

There is also the huge issue of encouraging young people to join the industry. I was in a college last week speaking to about 100 students who are busy working in relevant courses, and there was a fundamental anxiety that, despite the pay rates and so on, there are not the jobs available. In the past couple of years 14,000 to 15,000 jobs have been created in the industry. Those messages are not coming through. The industry, the Government and we and other agencies have a huge job to do to encourage Scots, and young Scots in particular, that this is an industry with all kinds of opportunities. We need to better express that, and to give good examples of why it is a good industry to go into and why it is one in which Scots will do well.

Johann Lamont: What incentives can we create, then, to encourage and support employers

to offer a better standard of pay and more job security? If the Government is saying that it has a strategy for fair work that is connected to growth, and you are a growth agency, what are your responsibilities? What could you write into your quality assurance assessments? What incentives could we create around the benefits of being part of the Scottish business pledge? What are the incentives to businesses to decide to buck the trend and not have 72 per cent of their employees on less than the living wage? What conversations are taking place now, by the Government, to help the industry? It feels to me as if, despite the Government talking about the importance of fair work, in the biggest sector in which there is a problem there is not even a dialogue about supporting people to move towards the Government's agenda.

Dr Cantlay: There is certainly the dialogue. I ask Malcolm Roughead to deal with the quality assurance issue.

Malcolm Roughead: First, there is work going on across all the agencies to look at the evidence base for the industry that they would like to see. Is it things such as reduced retention costs or increased productivity? The agencies are trying to build a business case around it. Whether that is successful, we will see, but that is what is being pulled together. Secondly, the—

Johann Lamont: Will that go to Government when it is done?

Malcolm Roughead: I presume so. At the moment it is being commissioned, so it is not finalised yet. The agencies need to pull that evidence together.

The second part is about the quality assurance scheme, which is voluntary, not mandatory. We might find that if we were to make something compulsory in the scheme—there is no subsidy in the scheme; people are paying to be part of it—the industry might decide that it does not want to be part of it. We would end up with the unintended consequence of an erosion in the focus on quality and value for money. We have to consider all of those issues. I take on board your point. How do we get the industry to see that this is a good thing to do? How will it benefit their business? That is still very much in its infancy.

Johann Lamont: Would it be reasonable to say that it would be useful to VisitScotland, as a growth agency, to have an identified amount of money in the budget to create an incentive for people to be good employers—rather than making paying the living wage compulsory rather than voluntary under the quality assurance scheme—if that is what the Government says that it wants?

Malcolm Roughead: It may not be VisitScotland that does that.

Johann Lamont: With respect, you are the growth agency for the sector.

Malcolm Roughead: Yes, but business support—

Johann Lamont: If your support is conditional, would it be reasonable to make that the condition? Would it be reasonable for the Government to fund you to be able to do that, if it wants to promote not just growth but sustainable growth in a sector that provides the best examples of what might be defined as poor-quality work because of low pay and job insecurity?

Malcolm Roughead: The point that I was going to make is that the issue is not whether it is VisitScotland per se or the public sector in general. If it is about business support, we need to make sure that the mechanisms are in place. At this stage, whether VisitScotland is the agency that delivers that business support or is just an agency that supports it and signposts to it is not the most important thing. The most important thing is to understand what business needs to get over the barrier of implementation.

Johann Lamont: But it would be reasonable to say that, given that your industry is where the issues of low pay and job insecurity are most prevalent, any Government that wants to address that should work with you. Otherwise, one might suspect that the growth strategy is completely separate from any concerns about fair work. I want to know how you think that you can bring those two things together.

Malcolm Roughead: I suppose that what I am trying to do is to avoid creating another agency that delivers business support. We have already talked about simplification and making it easy for businesses to access support. If that support is on a single portal, it does not matter whether it is the business gateway, Scottish Enterprise, or VisitScotland. The fact is that it is there and it is easy to find.

Dr Cantlay: One of the issues that we have in an industry made up of many different players, including many small players, is communication. There are growing examples of businesses that are responding well to that. We are better able today to explain it and express it. VisitScotland and the Scottish Tourism Alliance are just about to go round the industry on the winter programme. I assure you that it is a key topic—we are linking up what one business has done with what another has done across this whole agenda. That is definitely working. It is certainly catching the mood, is it not?

Marc Crothall: Yes, absolutely. It is here, and the business has to respond to the issues of the minimum wage and changing the pay scales. It needs to look at productivity and what it has to do

to attract people. It goes back to the aspiration of profiling the industry, ensuring that tourism is seen as a career of choice and, more importantly, ensuring that it offers real progression. Tourism is never going to go away. It is here for good.

If you are in the digital arena or you are an engineer, you are in the tourism industry. There are multiple career options and pathways that you could go down. For me personally—I think that a number of my colleagues would share the same view—the challenge of changing the perception of our industry starts in primary schools. It needs to be presented by the teaching workforce that tourism is more than just hotel keeping or working behind a bar. It is a much broader opportunity. When you start to attract the skill, invest in those people and drive your productivity, you will want a reward in pay.

There is a seasonal workforce that is transient and will move—that is the nature of the beast, globally, in the tourism world. However, there is an absolute commitment to invest in the workforce that is not transient. The industry will continue to look at the case studies and examples of where businesses have made that shift. Retention of workforce is one example. How does it deliver on your bottom line?

Johann Lamont: I think that we would accept that low pay and job insecurity add to the sense that tourism is not a sector that people would want to go into. What is the one thing that the Government should do to support your aspiration for the sector to be regarded more highly? What is the one thing that the Government could do to break that cycle? We cannot wait around and hope that people will take a risk and go into a sector that is devalued and has low pay and job insecurity, thinking that, once they are there, it will improve. How do we turn it around the other way? What can Government do to help you?

Marc Crothall: You commented that the industry is perceived as low paid and devalued. The perception of the tourism industry is in a much better place than it was many moons ago. If we look at the major events and so on that we host, we can see that what the tourism sector delivers has raised the appeal of the industry in a big way. I have been 35 or 40 years as an operator—peeling potatoes, having knives thrown at me by a chef when I was 16. I have worked in the industry in nine countries around the world and I do not see the industry today as tarnished or considered as an industry not to go into.

Johann Lamont: With respect, I have accepted that. You said that there was an issue about how you retain people because of people's perception. I agree with you. Look at the Commonwealth games and all the rest of it. Even if there is a huge change and people become more likely to go into

the sector, the fact is that 72 per cent of employees earn below the living wage and 40 per cent of employers in the sector—compared with 11 per cent across all sectors—use zero-hours contracts. We can understand why that has happened. We want the sector to work. If the Scottish Government is in favour of inclusive growth and fair pay, what can it do to help you, as an industry, to make that shift?

Marc Crothall: We have spoken about business rates and things like that. Some of the overheads and costs that the industry is incurring at the moment need to be revisited and relaxed so that we can transition to a more balanced approach to pay.

There are some top-line challenges, particularly in the licensed trade the changes in drink-drive regulations. We have to drive more volume into businesses to allow the bottom line to grow, and then we can gradually move that up. We are not looking at one issue here. The conversation needs to continue on the whole package of how a business in our industry operates at the moment. That conversation has started, though. There is an acceptance that we are a sector that has a challenge but a genuine desire and, I suppose, a willingness on all sides to sit down and try to find the solutions. In the short term, for some businesses, it is going to be a very big problem.

Dr Cantlay: This year was one in which the industry should have taken one of its traditional significant—if not severe—downturns. It is just the way it goes. However, that has not happened. One of the core reasons why that has not happened is that the Government and the country got behind the events of 2014 to give us the kick to get through that. If I am honest about it, going back in time I cannot remember Government or public involvement in the industry to that extent. It goes beyond the specific Government of the day; the people of Scotland drove the machine through 2014. That has had a profound effect, in that it has protected the industry through a difficult period in 2015 and has hopefully set us up.

At the end of the day, when it comes to these businesses it is about bottom-line profitability. All the different bits—the bed tax and all the rest of it—plug into that. In the conversations that we are having in the industry through this winter, we are trying to explain, “Look how much more confident you are now than you were at the start of the year. Look at the storm that we’ve just weathered, and now the weather’s getting better.” We are in good shape to tackle the next period and to address these issues. We will see how we do this winter, but I am confident that we are making progress.

The Convener: Thank you. I appreciate that we are a bit behind the clock. I promised a last question or two to Patrick Harvie.

Patrick Harvie: It is on a similar subject, but I will try to be brief. I would have shared the expectation and the hope to hear about more concrete actions being taken to drive up participation in the fair work agenda. You have talked about the large number of small businesses in this sector, which I see as a strength. You have talked about the need for young people to see this not just as any old employment but as a sector in which there is progression and in which they can have a long-term future. There is a connection between the two, because where are those next small businesses going to come from if young people do not feel that they have a future in this industry, particularly in communities where hospitality and tourism employers might be among the only opportunities on offer?

11:45

However, the UK Government is taking a very different approach. Instead of promoting a living wage that is calculated to give people what they need to live with dignity, it is cutting tax credits and is effectively imposing an additional upper age band on the minimum wage. We have heard in previous evidence sessions arguments that many employers may be driven by that towards more use of zero-hours contracts and more casualisation of labour to make sure that they can keep employing people at the lower age bands, and that they will close down the opportunities for younger people as they start to approach the 25-year-old threshold. Is there a danger that, over the next few years, we will see, particularly in the kinds of communities where hospitality and tourism are the major opportunities, more incentive for the young people to get out while they can before they start seeing the opportunities close down? What can the Scottish Government do to address that, not necessarily in terms of its budgets but through areas such as tax and welfare, in which it will get some opportunity to take measures over the next few years? I said that I would try to be brief, but I was not.

Malcolm Roughead: I am afraid that I do not have a magic wand, but I take on board exactly what you say. For the industry as a whole, the issue that you raise is a potential barrier to growth and to employment, and clearly it is not something that we would like to see, because it is counter to everything that we have just been talking about in terms of trying to get young people into meaningful work and give them a career and a career path. I think that the issue is related slightly to the previous discussion that we had. Rather than come up with an immediate knee-jerk response to the issue, I would quite like to take it away and think about it.

Patrick Harvie: Do you share the concern that once the 25-year-old age band for the minimum wage comes in, we will be looking at an upper age band in the minimum wage that is getting on for double the 16 and 17-year-old age band? Will that not increase the incentive for many employers who find that their bottom line is difficult to ease people out, get rid of them or shift them on to zero-hours contracts so that they are not employing them as much when they get into the older age categories and instead employ more people who are younger? Is there not a danger that we will squeeze off the future of some of those communities?

Malcolm Roughead: I will give you my personal opinion. I would be concerned that that could be an outcome, but I think maybe—

Marc Crothall: Knowing many of the 21,000 businesses well—we have many conversations and 9,000 people went through our tourism week programme last year—I know that there is a recognition that we have to have a mature workforce balanced with a young workforce. I share that view. If a business squeezes people out to pay the lower wage and rely on a younger generation coming through, concern about its quality immediately comes into play. Will it end up with a reputation that is not as good as it would like? There are swings and roundabouts. I have not come across anybody who has said, “That is it. I am removing the old and will just work with a 16 and 17-year-old workforce on zero-hour contracts”. Anybody who chooses to do that would be very foolish. I am not convinced—by a long shot—that that will happen.

Dr Cantlay: For me, the interesting thing in relation to the points raised by Patrick Harvie and Johann Lamont is that I hear discussion in the industry about what the simple spark and inspiration is to even look at the sector. I appreciate that these are significant issues, but as an industry we have not addressed that before. It comes back to people like Mr Crothall talking about pot rooms and whatever. People think “I would like a job in the hospitality industry”, and they think, “I will be cooking or whatever,” but the industry has expanded over the past few years. I have a run of slides that shows the different types of jobs available in the industry that people do not think about. That is key.

I accept that the issues that Patrick Harvie and Johann Lamont raise are key but, as an industry, we have more to do fundamentally to catch the mood that tourism is a sector that is worthy of being looked at and which offers exciting jobs to do, in addition to addressing the issues of pay and remuneration. As Marc Crothall rightly said, this is an industry that we have been doing for 200 years and we will be doing it for the next 200 years. It is

a safe industry for employment, but I take the point entirely that the employment has to be properly remunerated and has to be seen to be so.

Patrick Harvie: Sorry, I thought that the reference to pot rooms was a call for a change in drug policy. There could be opportunities there.

The Convener: That is a whole different debate, Mr Harvie.

Marc Crothall: I can assure you that in some of the kitchens in Africa it was like that.

We had a discussion about tourism as a badge. The careers include a career in marketing, a career in accountancy or a career in carpentry. Those are all trades and skills that make up the business that we run, and it is about positioning the sector as providing those opportunities. There are a whole raft of opportunities, such as guiding, adventure work and so on. For the younger generation, it is about opening up those doors and getting them to realise that what is presented to them is not just, “You have failed your exams. You will go into a storeroom and be shouted at or you will go and work behind the bar in a pub.” I have nothing against barmen, because they do a great job and I hope that they do a good job tonight.

Patrick Harvie: As UK welfare changes push more of the people working in those jobs further into poverty, there is a danger that they conclude that their only option is to get out of the industry. We need to take that issue seriously.

The Convener: Thank you. The session has been slightly longer than we expected, but we have covered a lot of ground. On behalf of the committee, I thank all the witnesses for coming along.

Dr Cantlay, this might well be your last appearance before the committee before you demit office, so I say on behalf of the committee how much we have appreciated your engagement as chair of VisitScotland over the last number of years—thank you for your chairmanship.

Members: Hear, hear.

Dr Cantlay: Thank you. It is the best job in the world, so it has been a privilege.

11:52

Meeting continued in private until 12:16.

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