

# **ENTERPRISE AND LIFELONG LEARNING COMMITTEE**

Wednesday 18 September 2002  
*(Morning)*

Session 1

£5.00

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# CONTENTS

Wednesday 18 September 2002

Col.

<b>TOURISM INQUIRY</b> .....	2743
<b>SUBORDINATE LEGISLATION</b> .....	2755
Late Payment of Commercial Debts (Scotland) Regulations 2002 (SSI 2002/335) .....	2755
Late Payment of Commercial Debts (Rate of Interest) (Scotland) Order 2002 (SSI 2002/336) .....	2755
Electricity Act 1989 (Requirement of Consent for Offshore Generating Stations) (Scotland) Order 2002 (SSI 2002/407).....	2755
<b>TOURISM INQUIRY</b> .....	2757
<b>ELECTRICITY TRADING AND TRANSMISSION ARRANGEMENTS</b> .....	2789

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## ENTERPRISE AND LIFELONG LEARNING COMMITTEE

† 24<sup>th</sup> Meeting 2002, Session 1

### CONVENER

\*Alex Neil (Central Scotland) (SNP)

### DEPUTY CONVENER

\*Miss Annabel Goldie (West of Scotland) (Con)

### COMMITTEE MEMBERS

\*Rhona Brankin (Midlothian) (Lab)  
\*Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab)  
\*Mr Adam Ingram (South of Scotland) (SNP)  
\*Gordon Jackson (Glasgow Govan) (Lab)  
\*Marilyn Livingstone (Kirkcaldy) (Lab)  
\*Mr Kenneth Macintosh (Eastwood) (Lab)  
\*David Mundell (South of Scotland) (Con)  
\*Tavish Scott (Shetland) (LD)  
\*Andrew Wilson (Central Scotland) (SNP)

### COMMITTEE SUBSTITUTES

Mr David Davidson (North-East Scotland) (Con)  
Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)  
John Farquhar Munro (Ross, Skye and Inverness West) (LD)

\*attended

### WITNESSES

Ivan Broussine (Scottish Tourism Forum)  
Bob Christie (Convention of Scottish Local Authorities)  
John Downie (Federation of Small Businesses)  
Councillor Willie Dunn (Convention of Scottish Local Authorities)  
Margaret Ford (Gas and Electricity Markets Authority)  
David Haldearn (Office of Gas and Electricity Markets)  
Owen Kelly (Historic Scotland)  
Callum McCarthy (Office of Gas and Electricity Markets)  
♦Andrew McConnell (Scottish Executive Enterprise and Lifelong Learning Department)  
John Millward (Federation of Small Businesses)  
Graeme Munro (Historic Scotland)  
Paul Murray-Smith (Scottish Tourism Forum)  
Peter Taylor (Scottish Tourism Forum)  
♦Lesley Thomson (Scottish Executive Enterprise and Lifelong Learning Department)  
David Valentine (Convention of Scottish Local Authorities)

♦by video link

**CLERK TO THE COMMITTEE**

Simon Watkins

**SENIOR ASSISTANT CLERK**

Judith Evans

**ASSISTANT CLERK**

Jane Sutherland

**LOCATION**

Committee Room 1

† 23<sup>rd</sup> Meeting 2002, Session 1—held in private.

## Scottish Parliament

### Enterprise and Lifelong Learning Committee

Wednesday 18 September 2002

(Morning)

[THE CONVENER opened the meeting at 10:05]

**The Convener (Alex Neil):** I open the meeting and suggest that we take item 1 once we have the videoconference link with Glasgow fully up and running. Is that agreed?

**Members** indicated agreement.

### Tourism Inquiry

**The Convener:** We move to item 2, which is on our tourism inquiry. I ask the witnesses from the Convention of Scottish Local Authorities to step forward. We have received written evidence. Willie Dunn, who is the convener of COSLA's economic development committee, will lead the oral evidence. I ask Willie to introduce his team and to say a few brief words on COSLA's evidence.

**Councillor Willie Dunn (Convention of Scottish Local Authorities):** Thank you for moving our time forward. It is somewhat ironic that I am leaving the country later today and that I do not really fancy using the videoconference link given the difficulties that we have had this morning. I am COSLA's spokesperson on economic development, tourism and planning. Some people think that Iain Gray has a huge portfolio, but COSLA's economic development committee's portfolio stretches even further.

Bob Christie on my left is an officer with COSLA, and David Valentine on my right is a representative of the Scottish local authorities economic development group; he is giving evidence on behalf of COSLA. SLAED and COSLA have worked together closely to produce the evidence that we will present today.

Local government welcomes this opportunity to present what it does in Scottish tourism. Local government plays an important role in the delivery of tourism. That is not just about the visitor attractions that local authorities provide; it is about roads, lighting and the cleanliness of areas. It also involves the licensing committees that license attractions and public houses. How many people here have been abroad and not returned to a place because the streets have not been cleaned or the lighting is poor?

We provide 33 per cent of funding to area tourist boards within Scotland and we think our role is vital. It is unfortunate that local government is not represented on the board of VisitScotland and we think that that should be addressed. If we want to create a true partnership for delivering tourism in Scotland, local government should have its place on VisitScotland's board so that it can represent the views of Scottish local authorities in the production and delivery of a tourism strategy throughout Scotland.

We welcome the opportunity to speak today. The committee has our written evidence and we are more than happy to take questions. If I cannot answer them, I will seek advice and help from my officials on either side of me.

**The Convener:** I just want to tell the people who are operating the videoconference link that we can hear them talking. When we are hearing from witnesses it would be fair to them to have silence in the background. I am sorry to have interrupted you, Willie.

**Councillor Dunn:** That is all right. I was just saying that we are more than happy to take questions on our written submission if anyone wants more information from us.

**The Convener:** SLAED and COSLA both submitted evidence. David Valentine is here wearing both the COSLA hat and the SLAED hat. Do you want to say anything specific about SLAED's evidence?

**David Valentine (Convention of Scottish Local Authorities):** SLAED is the Scottish local authority economic development officers group. Its members include the heads of economic development of all the 32 councils, whose staff also participate in the group. I am the vice-chairman of SLAED and head of its tourism subgroup.

We have a huge engagement with tourism in our day-to-day operations and we felt that before we could make a true contribution to the inquiry we would have to develop the facts and figures. My main role has been to prepare our report on the role of the Scottish councils.

**The Convener:** I have a couple of questions. In the case studies and evidence that we heard, the following two suggestions were made. First, it was suggested that there should be a tourism tax—a bed tax—to fund additional investment in marketing Scotland at national and local area levels. Secondly, it was suggested that we should follow Northern Ireland's lead and have a more comprehensive system of statutory registration and regulation of the quality of the tourism product. What is COSLA's response to those suggestions?

**Bob Christie (Convention of Scottish Local Authorities):** You have caught us out a little, convener. I do not know the background to the suggestion that there should be a bed tax, but questions arise about who would collect the tax and the purpose to which it would be applied. The question of representation arises in the case of any taxation system; in this case, how would the interests of those who provide accommodation be met through the revenue from the tax?

**Councillor Dunn:** The bed tax is a double-edged sword. You do not want to put in place a tax that could deter people from coming to the country and using the facilities. The issue is about balance. I know that a bed tax exists in other areas and countries and that a tax is applied on entry to airports in certain countries. The revenue from those taxes is put back into the tourism or airport systems.

Given that Scotland is trying to attract more tourists, the last thing we want to do is introduce a bed tax. To do so could mean pricing ourselves out of the market, particularly if the tax in Scotland was different to that in England.

**The Convener:** Have you given any thought to the suggestion about more comprehensive regulation and registration of the quality of the tourism product?

**Councillor Dunn:** I have not, but my colleague might have done so.

**Bob Christie:** Local government already applies a range of regulatory and licensing regimes to ensure safety, quality and security in respect of premises and activities such as the sale of food. I am not certain what you meant by "quality".

**The Convener:** I meant in respect of accommodation, in particular.

**Bob Christie:** Local government goes far enough in ensuring fire safety. We also regulate food safety, in cases where those who provide accommodation provide meals. I am not sure what the role of local government would be beyond that. If we were talking about statutory registration, that would have to be carried out by another sector.

**The Convener:** As you know, we commissioned consultants to undertake work during the summer to examine Scotland's competitive position. One of the conclusions that the consultants reached in their recommendations was that we have to change the emphasis to marketing Scotland as an entity. The consultants found too many Mason-Dixon lines—so to speak—across Scotland. People are too worried about trying to market their own hamlet. If we continue to do that, Scotland and the Scottish product will suffer, although it is obvious that local authorities take pride in and want to promote their areas. Have you had a chance to look at the report conclusions?

**Councillor Dunn:** I subscribe to the idea of thematic marketing for Scotland, in which we create golf and heritage themes—castles or whatever the flavour of the month is—to attract tourists from abroad. However, we need to balance that with the fact that many tourists do not come from abroad, but from within the United Kingdom. They visit specific areas of Scotland, perhaps to stay with friends, visit relatives or stay in a particular hotel.

I agree that, from the worldwide marketing point of view, it is better to market golf as an entity as opposed to marketing it in relation to individual areas. I must be careful about what I say, because David Valentine works for Angus Council. I was recently in Angus, where the Carnoustie golf course is located. If David started a worldwide marketing campaign to get people to come to Angus, a lot of Americans would think that he was marketing a steak house. However, if he said, "Come to Scotland to play golf", and Carnoustie was part of that campaign, people would be more likely to come to Carnoustie.

Once people are in Carnoustie, they can see more of the wonderful tourist attractions in Angus, such as the Pictavia centre, which we visited a few weeks ago. There must be a balance between the two types of tourism. From a worldwide perspective, reasons for people to come to Scotland should be based more on themes. Once tourists have visited Scotland, we want them to come back, and local government can play an important part in ensuring that people come back.

**Miss Annabel Goldie (West of Scotland) (Con):** I would like to tease out a bit more information about your views on the area tourist boards. Paragraph 6.5 of your submission states:

"The centralisation of e-bookings at VisitScotland should lead to a greater link between VisitScotland and ATBs."

However, Greater Glasgow and Clyde Valley Tourist Board has decided not to sign up to that. Does COSLA have a view on the robustness of the area tourist board structure?

10:15

**Councillor Dunn:** Area tourist boards work quite well in some areas, very well in some areas and not very well in other areas. There is no perfect structure. We are not saying that there should be six area tourist boards or what they should be like. We have yet to have that debate; the matter must be gone into deeply. Edinburgh and Lothians Tourist Board, for example, markets its area well because that area has a critical mass. However, the current structure of 14 ATBs is not sustainable, and we need to investigate further whether there should be 10, six, five or four ATBs. Thematic ATBs must also undertake cross-border

working, for example, as between Fife and Angus—St Andrews and Carnoustie—on golf tourism.

We want to ensure that, whatever structure area tourist boards take, local authorities are properly represented on them. If local authorities are to provide money to the new structure, each local authority that gives money should be represented. I draw a parallel with the boards of local enterprise companies; the City of Edinburgh Council, East Lothian Council, Midlothian Council and West Lothian Council are all represented on the board of Scottish Enterprise Edinburgh and Lothian. There is no problem with that and the same should be the case for any new tourist board structure that emerges. If a local authority gives money to an area tourist board, it should be represented on that board.

**Bob Christie:** I will add an ancillary point on the need for robustness of funding, which is also important. Greater Glasgow and Clyde Valley Tourist Board is among those that rely most heavily on revenue from local authorities. Local authorities provide three-year rolling funding for ATBs and, nationally, local government is the largest funder of ATBs. Nevertheless many ATBs face financial problems. In any review of ATB structures, we must consider the need for stability in their funding arrangements. We have managed to swat on the head any argument that local authorities are somehow at the root of the current instability. As well as governance, the buy-in from local authorities will be important in ensuring continuation of the links to all the attractions and services that we already provide locally.

**Councillor Dunn:** The funding element is critical. I worked in a community organisation in Wester Hailes, for which annual funding was a problem. We did not know whether we would have funding for our programme from one year to the next so, six or seven months into each year, our staff started looking for other jobs. Area tourist boards need to have security of funding so that they can plan for the long term. They need to know how much money they will have in years 2 and 3. That will ensure a much better delivery from the area tourist boards.

**David Valentine:** At the moment, ATBs rely on about £4 million annually from European funding, which will be reduced significantly over the next three years.

**Miss Goldie:** Would local authorities resist any attempt to remove the obligation on them to fund area tourist boards and to centralise funding in some way?

**Councillor Dunn:** Yes. The buy-in depends on there being no taxation without representation. As well as funding the ATBs directly, local authorities

put a lot of other money into tourism indirectly. Their role in the ATBs—in funding them and in ensuring that they deliver for the local areas—is critical. Therefore, the money for the area tourist boards should still come from the local authorities, so they can continue to play their part.

**Marilyn Livingstone (Kirkcaldy) (Lab):** I represent a Fife constituency where the area tourist board does a very good job. The evidence mentioned considering a more integrated approach. You are talking about security of funding. What are the implications of community planning? How do you think it is all going to fit in? You are talking about looking at three-year budgets. How do you see the role of local authorities and community planning in the tourist boards? How do area tourist boards think that the local economic forums are working? How are they fitting in and how can they help? I know that is quite a big question. However, we are considering integration and I am asking how the two structures of community planning and the local economic forums are working.

**David Valentine:** I will answer those questions as best I can. On community planning, part of the SLAED submission comes to the important conclusion that tourism is considered holistically by communities. Tourism is a thread that runs right through a local economy whether it is considered from the point of view of amenities for tourists that also benefit local people, or from the point of view of building the image of a place to attract inward investment.

If I go to a meeting of business people in Brechin or Arbroath, for example, one of the most important aspects of that discussion will be tourism. They will talk about culture, heritage and all the things that make up the local product. Councils that offer so much of the Scottish product have a duty to promote and package local marketing and marketing of products locally. However, we also want to engage in the themed approach.

On community planning, we must use an holistic approach. Tourism runs through the whole economy.

After some initial fears, most areas of Scotland seem to be quite settled with the local economic forums and the way that they have approached the work. The Tayside local economic forum has a strategic tourism group that will meet twice a year to co-ordinate on important strategic issues such as transport, communications and marketing. It is important to note that that goes back to the ATB position. We need to get the relationship between VisitScotland and the area tourist boards right. I do not think that there is a problem with the local economic forums.

**Marilyn Livingstone:** You have given us an example of good practice, which is helpful to the committee. You are saying that no one size fits all and that there should be flexibility. It is asking quite a bit, but if you have any more examples of good practice, I think that the committee would like to see them because that could inform the debate. If there were examples of how good practice is taken on board, I would like to see them.

**The Convener:** Do you want to see those as follow-up evidence?

**Marilyn Livingstone:** Yes. I am not asking to hear about those examples right now, but it will inform our debate if we have good examples. We heard how organisations vary from region to region, so it would be helpful for the report that we are compiling to have some examples of good practice.

**Councillor Dunn:** That is not a problem for us. We can submit that information to the committee.

**Marilyn Livingstone:** Thank you.

**Mr Kenneth Macintosh (Eastwood) (Lab):** Paragraph 6.9 of the COSLA submission mentions that there are questions about how much influence core funding by councils has. Your submission also mentions how councils are obliged to seek best value when procuring services from ATBs. The ATBs must demonstrate that they are the best providers. Do you have any examples of tourist boards that are not providing best value? Do you have any examples of tourist boards and councils being in conflict?

We have done a local inquiry and we found very little conflict between the local authority and the tourist board. I would like to know whether that is typical or atypical and whether there is tension between the tourist boards and local authorities generally.

**Councillor Dunn:** David Valentine can answer the part about tension.

**David Valentine:** I am not aware of any specific examples of tension. The situation to which Mr Macintosh refers is a variable commodity throughout Scotland. There are obviously tensions in some areas. In my case, there have been problems because of the role and remit that local authorities are said to have because they do not have a destination-marketing role.

Obviously, that leads to tension when we own so much of the product. For example, Angus Council owns eight golf courses, including a championship course. We therefore have a duty not only to manage and maintain the courses for local people but to present them as part of the national tourism product. That leads to tensions on roles and remits. Our submission makes the point that tourism is everyone's job, from the citizen to the national support organisations.

The issue goes back to the possible need for more clarification of roles of Scottish Enterprise and the area tourist boards. We must also realise that local councils have a responsibility towards the product as well as a duty to take an holistic view by looking after their communities and integrating with what happens at national level. We realise that there needs to be a lot of change, but many councils have shown that they are willing to change.

**Mr Macintosh:** I sympathise with your frustration that councils could do a good job if they were given charge of the services that are currently provided by the ATBs, but I want to establish whether, in addition to the need for clarification of roles, there is a fundamental problem with area tourist boards. Are you able to get on with them and work hand in hand with them? Do you work in partnership with them? Is there a workable relationship between councils and ATBs, or does the relationship need to be rethought?

**David Valentine:** To generalise, the relationship has the potential to be good. Apart from the tensions that I mentioned, many of the problems have come from underfunding of area tourist boards. The ATBs have been unable to do many of the things that they would have liked to do, which puts pressure on communities to take action through other means.

**Mr Macintosh:** Do the area tourist boards have the right balance between elected local authority members, representatives of small businesses and representatives of large tourist business?

**Councillor Dunn:** The council representation is right at the moment—obviously, I would say that—but area tourist boards should include a broad spectrum of people from different sizes of businesses. That is not the case in some tourist boards. Some include the classic two or three people who run small bed and breakfasts, but include no representation from the several large hotels that might exist in the area. The area tourist boards should be structured in such a way that they represent provision in the area.

I cite the example of the local enterprise companies, which include representation from local authorities, from education and from small and large businesses. The local enterprise companies have all those people to look after economic development for the area and area tourist boards should go along those lines. We need to ensure that ATBs include representation from all the facilities and groupings. That does not by any means require ATBs to have huge committees, but they need people with experience in different sectors rather than in just one or two.

**Mr Macintosh:** I welcome your comments on the tourist information centres—I make that comment in passing—but paragraph 6.14 of your submission proposes that companies that pay membership fees to their home area tourist board should be able to get a service throughout Scotland. Is that opinion commonplace? I have not heard it before, but it sounds like a sensible idea.

**David Valentine:** My understanding is that that is a problem for many businesses. As well as having businesses that service a local market, we have businesses throughout Scotland that service national or even international markets. Those businesses need access to full support and should not have to go to different boards for different types of support on different matters.

**Mr Macintosh:** Is the problem that the businesses need to make the same argument to each board?

**David Valentine:** Yes, but they are also required to engage in the different initiatives that are being promoted throughout Scotland.

**Bob Christie:** I would like to make a point about the relationship between local authorities and the area tourist boards. There is no great will on the part of local government to take on the functions of the ATBs. The ATBs undertake necessary local functions but, in relation to best value, we want the review of the ATBs to equip them with a clear role to service the local authority and the local attractions and to market those attractions in an appropriate national and international hierarchy. If they have that clear role, I am sure that they will be the best-value providers to the local authorities. However, it is not necessary for local authorities to take on the functions of the ATBs. That would be the last resort.

10:30

**Mr Adam Ingram (South of Scotland) (SNP):** I note that COSLA's submission is shot through with a plea on behalf of local government to be included in the process that we are discussing. As well as what it wants in relation to ATBs, COSLA wants to be represented on the board of VisitScotland. What value can COSLA add to the VisitScotland board in relation to essential strategies and initiatives, which we all agree need to be industry-led?

**Councillor Dunn:** The process that local government is involved in with regard to tourism needs to be represented on the board of VisitScotland. It is true that strategies and initiatives need to be industry-led, but the industry relies on local government to deliver some of those initiatives and to provide an environment in which its products can be delivered. Local government could bring a different dimension to

the VisitScotland board. At the moment, an elected member—Councillor Donald Anderson from Edinburgh—sits on the VisitScotland board, but he represents the Edinburgh and Lothians Tourist Board rather than local government.

We can find out what is happening in various areas of Scotland. Councils have different problems, so we can feed our knowledge of various situations into the process. More important, representation on the board would bind us together in a true partnership for servicing tourism throughout Scotland. As our submission says, local authorities play a vital role. We think that we have a right to be represented on the board because we deliver relevant services on behalf of the people of Scotland day in, day out. If we were on the board of VisitScotland, we could ensure that the views of local authorities were heard and that VisitScotland was aware of what local authorities are doing for the Scottish tourism industry.

**Mr Ingram:** Paragraph 6.4 of COSLA's submission says that

"links between councils, ATBs and VisitScotland need to be integrated to ensure that councils - who provide the major share of visitor attractions in Scotland - are fully involved along with business when looking at product development issues".

What sort of product development issues can you work on?

**David Valentine:** We have alluded to some of them already. Golf is a good example and has huge potential for Scotland. Figures in our submission demonstrate the impact that museums and galleries have in relation to tourism, accounting for 14.8 million visitors, which makes up about 45 per cent of all visits made to all attractions in Scotland. We also categorise caravan sites under the quality assurance scheme. We operate industry standards and are very much part of the industry when we market such products.

Our submission makes the point that, as well as providing infrastructure, licensing, planning and so on, we are a big part of the product. We have to engage with the industry; that should not be forgotten when new arrangements are put in place.

**Rhona Brankin (Midlothian) (Lab):** The table on page 2 of the Scottish local authorities economic development group submission demonstrates a striking variation in the percentage contribution that local authorities make to area tourist boards. Does the variation represent a differing level of commitment from some local authorities to the tourism sector, or is the contribution from the private sector, for example, greater in some areas?

Perhaps you could tease out that information for us. For example, the contribution that council funding makes to the total revenue income of Edinburgh and Lothians Tourist Board is 35 per cent, whereas the equivalent contribution to Greater Glasgow and Clyde Valley Tourist Board is 60 per cent. I notice that there is quite a discrepancy between the 36 per cent council contribution to Shetland Islands Tourist Board and the 19 per cent contribution to Western Isles Tourist Board. The contribution to Grampian Highlands, Aberdeen and the north-east coast is 27 per cent, but the contribution to Angus and Dundee Tourist Board is 44 per cent. There are huge discrepancies. What is the explanation for those discrepancies?

**David Valentine:** I agree with that observation. The discrepancies are largely historic. There is a huge variation. I do not know the reasons for that, but in Shetland it might be to do with the oil fund. Other funding might be available for different types of interventions and promotions. During the past three years, COSLA has tried to take stock of the situation and has asked local authorities to sustain funding at the same level for a period, to bring some stability. Most authorities, if not all of them, are signed up to that goal. I cannot explain why there is such variation—it is largely historic. Another possible cause is the availability of European funding in some areas but not in others. A complex combination of factors over a period of time is probably responsible.

In the SLAED paper, “The Role of Scottish Councils in Tourism”, we argue that we must take stock of the position. In financial and budgetary terms, we must decide as a nation what we want to do and we must cost it. We hope that the implementation group for the “Tourism Framework for Action 2002:2005” will address that type of issue, because there is no rationale for the figures in the table that you referred to. I would be the first to agree with your observation.

**Rhona Brankin:** We will need to explore that issue further.

**David Mundell (South of Scotland) (Con):** I offer my apologies for arriving during the evidence giving. My point might have been dealt with, as I know that Marilyn Livingstone mentioned community planning. Do you agree that in many ways what local government does for tourism has the greatest effect at the most basic level—for example, in the provision of basic services, such as the maintenance of the roads and footways and the keeping of the hours that public toilets are open? In my experience, tourism does not often come into the equation when the resources that are allocated to such services are evaluated.

**David Valentine:** That observation does not fit in with my experience as an economic

development manager. I have been in local government for 27 years. During the past 20 years, I have had considerable involvement in economic development. As manager of a medium-sized authority, I can inform the committee that tourism comes into play at nearly every meeting to which I go.

I attended several meetings yesterday. One of those meetings concerned the Angus ahead campaign, which is about a community being proud of itself and promoting itself locally, nationally and internationally. Some key players were round the table. We agreed to act together to do several things, all of which need council support in one way or another. Last night in Brechin, I was at a community meeting of the regeneration group. Most of the agenda focused on how the council could help the community to improve the product locally through festivals and events and by improving the Pictavia attraction in Brechin, which is a council-owned paid visitor attraction.

I could continue. I am sure that the pattern would be repeated in almost every authority—certainly in most of them. We have a hugely important role as far as infrastructure is concerned—keeping the streets clean, presenting our places properly and providing proper amenities. However, we are engaged in much more than that.

**Bob Christie:** Let me make a slightly cheeky addition. COSLA would welcome a recognition by the Executive of the payback that the national economy would get from increased investment in those basic services that are provided by local authorities. We recognise their significance for tourism and we ask the Executive to take that on board.

**The Convener:** We started with a plea; we finish with a plea. That evidence was very helpful. I thank Willie Dunn and his team.

## Subordinate Legislation

**The Convener:** I inform members who arrived late that we had to skip item 1 because of technical difficulties with the video link to Glasgow. We will now return to that item. The whole purpose of the video link was to save civil service time and the public money. We have perhaps succeeded in one, but not in the other. Can Glasgow hear me now?

**Andrew McConnell (Scottish Executive Enterprise and Lifelong Learning Department):** Yes, we can hear you clearly.

### Late Payment of Commercial Debts (Scotland) Regulations 2002 (SSI 2002/335)

#### Late Payment of Commercial Debts (Rate of Interest) (Scotland) Order 2002 (SSI 2002/336)

**The Convener:** Andrew McConnell will answer members' questions on the first two statutory instruments, which are on the late payment of commercial debts. I have one point to make. I note that the Executive has expressed regret for not laying the instruments earlier. As a general point, instruments should be laid on time so that the committee has the opportunity to comment if it wishes. We expect instruments such as these to be laid on time in future. Other than that, does the committee accept the recommendation to note the instruments?

*Members indicated agreement.*

### Electricity Act 1989 (Requirement of Consent for Offshore Generating Stations) (Scotland) Order 2002 (SSI 2002/407)

**The Convener:** The next instrument is the Electricity Act 1989 (Requirement of Consent for Offshore Generating Stations) (Scotland) Order 2002. I invite any points or questions from members.

**David Mundell:** I would like to have confirmed a point that is made in the explanatory note. It seems clear that, by the order, the Executive will effectively bring all offshore generating station applications, regardless of the station's size, within the planning process. Is that correct?

**Lesley Thomson (Scottish Executive Enterprise and Lifelong Learning Department):** The order would bring—

**The Convener:** Could you speak up, Lesley? We cannot hear you very well.

**Lesley Thomson:** The order would bring offshore generating stations with a capacity of

more than 1MW—which in reality means absolutely all of them—into the remit of the Scottish ministers as under section 36 of the Electricity Act 1989.

**David Mundell:** Will that apply to the proposed Robin Rigg development in the Solway firth?

**Lesley Thomson:** I am sorry, I could not hear the question.

**David Mundell:** Will that apply to developments currently in process, such as the Robin Rigg development in the Solway firth?

**Lesley Thomson:** The Robin Rigg development is interesting. Its capacity is more than 50MW, so the order would apply. The existing regulations apply to Robin Rigg now.

**Miss Goldie:** Is it in fact possible to have any generating station that would produce 1MW?

**Lesley Thomson:** Sorry, Miss Goldie?

**The Convener:** You will need to say that again.

**Gordon Jackson (Glasgow Govan) (Lab):** Yes, say that again. Speak up.

**The Convener:** I think that a train journey from Edinburgh to Glasgow would have taken less time. Could you repeat the question, Annabel?

**Miss Goldie:** I wanted to follow up David Mundell's question. What is so definitive about 1MW?

**Lesley Thomson:** For hydroelectric developments, 1MW was already the level that applied in relation to the remit of Scottish ministers. We imagine that even an offshore wind farm with one turbine would be more than likely to produce more than 1MW. Even the smallest development should be covered by the instrument.

**The Convener:** As there are no other questions or comments, I take it that the committee accepts the recommendation to note the order.

*Members indicated agreement.*

**The Convener:** I thank the witnesses.

## Tourism Inquiry

**The Convener:** We will now return to agenda item 2. I welcome Paul Murray-Smith and his team from the Scottish Tourism Forum. We have received your written evidence. Before you introduce the team and make supplementary remarks, I inform members that we have a tight timetable. I am working to the idea that each set of witnesses on tourism should take about half an hour. I will be flexible when essential, but to get through the business I will try to cut questions after about half an hour. I am sorry if every member cannot speak to each set of witnesses, but that is the only way in which we will get through the business.

10:45

**Paul Murray-Smith (Scottish Tourism Forum):** Good morning, convener and ladies and gentlemen. The convener's comments sounded like a whip—I will take note of them in my introduction, which I will keep brief.

I am the chairman of the Scottish Tourism Forum and the chief executive of two companies in the private sector—Dreamhouse Apartments and Euro Hostels Ltd. On my left is Peter Taylor, who owns the Town House Company Ltd, which has three hotels in Edinburgh. He is adviser to eTourism Ltd's board, which was recently established. He is also the national chairman of the British Hospitality Association. On my right is Ivan Broussine, whom members will know. He is the chief executive of the Scottish Tourism Forum and is probably the key member who is responsible for articulating the industry's views on tourism issues.

I thank the committee for inviting us to provide evidence. We broadly welcome the committee's inquiry into the level and effectiveness of Government intervention in tourism. We have submitted a detailed paper. I will not go through that, but I will emphasise three key elements. The tourism industry is dominated by the private sector. I do not mean by that that it is not important to work with all the interested parties in tourism. The Government is important because it sets the fiscal and regulatory environment. It can make an enormous contribution to marketing Scotland.

In its work, the committee recognises the importance of tourism to Scotland's economy and the challenges that we face in relation to a declining number of visitors and to competitiveness with other destinations, which we need to address. Our paper contains a series of recommendations on how the Government can

focus its contribution and aid more effectively, to sustain jobs and create jobs and businesses.

**The Convener:** I will ask two quick questions. What is the Scottish Tourism Forum's attitude to a tourism bed tax? Under the heading "The Role of the Private Sector" in your paper, you criticise the fact that annual public sector investment in the tourism product is only £300 million when tourism revenues are £4.1 billion. According to your figures, public subsidy represents about 7.5 per cent of total revenue. If any other industry outwith agriculture received such a subsidy, it would be thoroughly delighted.

**David Mundell:** What about the nuclear industry?

**The Convener:** We will come to that.

**Paul Murray-Smith:** I will answer the convener's first question and ask Ivan Broussine to answer the fiscal question. It is dangerous to take matters such as the bed tax in isolation, because huge questions must be asked and there must be a debate on fiscal policy—on business rates, other methods of attracting tax, VAT issues and our uncompetitiveness in relation to other countries in Europe. That is a huge matter; it needs a separate debate, in which we would like to participate. Ivan Broussine will comment on the figures in our paper.

**Ivan Broussine (Scottish Tourism Forum):** The reference to the £300 million was not intended to be a criticism. It is a shame that the convener read it that way. The reference was intended to reflect the scale of investment. I disagree with the convener's interpretation that 7.5 per cent of turnover is a subsidy from the public purse.

The COSLA presentation highlighted the impact of local government's investment in product and support for area tourist boards. The product is of value to the visitor—it is sometimes essential for the visitor's experience—and it is also an investment for residents.

When considering direct subsidy, I would rather look at the amount of money that goes from the public purse into marketing. That is real subsidy. We must also consider what is paid for through tax by the tourism and hospitality industry, whether through VAT or national insurance, for example.

**The Convener:** Do you agree that many of the visitor attractions that local authorities run operate on a loss-making basis and that, if those visitor attractions did not exist, that would have a major impact on the ability of private accommodation providers, for example, to attract visitors?

**Ivan Broussine:** Yes.

**Tavish Scott (Shetland) (LD):** Your evidence was helpful and thought provoking. I will ask two

questions. First, paragraph 20 of the forum's submission refers to the British Tourist Authority's accountability for delivering Scottish and other regional targets. What is your perspective on its accountability?

Secondly, paragraph 27 of the submission relates to the cost of flying in the Highlands and Islands—in other words, internal air routes. Do you agree that the real difficulty about internal air routes, for example in the Highlands and Islands, is cynical marketing exercises, in particular by British Airways? On 28 August, BA withdrew its old fare structure and introduced a new one, which supposedly provided cheaper seats. However, it also withdrew, without telling anyone, a percentage reduction for children, so it is now more expensive than ever to fly in the Highlands and Islands if you are unfortunate enough to have kids and want to move them around. We need co-operation; responsibility must be taken in relation to our internal air links. Is that why your submission refers to public service obligations? I presume that you share my view that BA is trying to con the public in areas such as the one that I represent and that we need a much more vigorous and positive public sector role.

**Paul Murray-Smith:** I will take the question about the BTA first—Ivan Broussine might comment on the second question. The point that we are trying to get across is that, if one is to market any country effectively, the various elements of the marketing must be integrated and accountable. The BTA has an important role to play in marketing Scotland. From an industry perspective, the BTA provides a lot of research that is not duplicated by any other source. It also provides a mechanism for marketing in some countries—it has about 27 offices throughout the world.

That is complementary to what VisitScotland does in international marketing and marketing competitiveness, but it must filter down to the area tourist board or to the local marketing delivery. We want a much more integrated plan—plans for each section must be integrated, accountable and have set targets. It is hardly useful if a big company in the commercial sector has a big marketing plan and each individual unit does its own thing without reference to the company's central marketing plan. We would like improvements in accountability, consistency and communication. We are participating in the debate and are encouraging the authorities to take that integrated approach forward.

**Peter Taylor (Scottish Tourism Forum):** The BTA has a new chief executive and we see some encouraging signs that it is working more closely with VisitScotland. The process is a two-way one. VisitScotland must communicate its intentions and

the BTA must cascade out into the regions. The Scottish Executive can help by agreeing some regional targets for which the BTA can be held accountable.

**Tavish Scott:** I take it that you are concerned that the existing targets are insufficiently exacting or are not worked out using a methodology that takes account of input from the private sector as well as from VisitScotland. Is VisitScotland demanding enough of the BTA?

**Paul Murray-Smith:** There is insufficient clarity.

**Ivan Broussine:** The issue of PSOs for internal flights was raised. We will make a submission to the air consultation that is under way. I cannot comment on BA's fares structure, as I do not have the facts. However, commercial operators must work commercially and make their own decisions.

The public sector and Government must consider again their relationship—through PSOs—with commercial operators regarding internal flights, especially those that are difficult to sustain commercially. The tourism industry, especially in the Highlands and Islands, feels that it is significantly disadvantaged by distance, price structures and low frequency of flights. People feel passionately that there is a need for Highlands and Islands Airports Ltd to deliver services more effectively.

**Tavish Scott:** Only £9.39 of the price of each ticket relates to Highlands and Islands Airports Ltd charges. Lengthening operating hours in the network would help, but that is a different issue. The airport charge is an insignificant part of the £300 that it costs me to fly between Edinburgh and Shetland every week.

**Ivan Broussine:** The charge is marginal in that context. It is not marginal for a budget airline that is attempting to provide flights to the Highlands and Islands and to improve frequency of service. Eighteen pounds for a return flight for two passengers—one flying in and one flying out—is a significant charge. Budget airlines have made that point.

**Tavish Scott:** I accept that. However, a future air strategy for the Highlands and Islands cannot be based solely on budget airlines.

**Ivan Broussine:** It is important that Government and the public sector re-examine cost structures. HIAL is one element of those structures. PSOs and development are others.

**Gordon Jackson:** In your submission, you say that the first priority of the tourism industry is international marketing of the brand "Scotland". I am trying to reconcile in my mind some of the other statements that you make. You say that there is

“frustration about the slow speed of involvement of the private sector”.

You also say:

“A small number of large companies of international or national stature market their facilities without the need to link to destination marketing priorities.”

I take that to mean that, to some extent, big companies are doing their own thing.

You call on the public sector to invest a minimum of £50 million in marketing. I have the impression that you want a great deal more public sector finance to be invested in the marketing of Scotland. The big players are complaining that they are not involved in that exercise, but at the same time they are doing their own thing. How can we integrate public and private marketing? Is there a structural problem?

**Paul Murray-Smith:** Over the past five years, the nature of the tourism industry in Scotland has changed rapidly. There are a huge number of small and very small tourism businesses that could not afford to market themselves abroad without a support mechanism.

The big companies are important because, through their direct marketing activities abroad, they are saving public money. Other businesses can link into those activities in their destination marketing. However, when we consider competitiveness and the amount of money that other countries are prepared to invest, we see that we are falling short. What we can spend in the United States pales almost into insignificance against what other countries spend.

I take the point that was made about accountability. We have to justify our requests. We cannot simply say that we want £50 million; we have to prove that spending that £50 million will bring in tourists and therefore contribute greatly to the economy of Scotland.

11:00

**Gordon Jackson:** I want to come back to an idea that I may not have understood. How do we integrate the work of the big companies into public spending? Your submission complains that the work of the private sector is not properly integrated, but at the same time you tell us that the private sector is off doing its own thing. How can we have more effective integration?

**Peter Taylor:** Historically, the large companies—the big boys—did their own thing, perhaps because of frustration with the previous Scottish Tourist Board. That is now changing. We see many positive things coming out of the VisitScotland marketing team, which is more focused. Large companies have many skills to offer and VisitScotland should tap into that

resource, dealing with the companies one to one. Two and two can make five.

As has been mentioned, 90 per cent of our industry is made up of AWEs. That is a term I heard recently—it stands for awfy wee enterprises. They can perhaps ride piggyback on the larger companies.

**Gordon Jackson:** Would such co-operation be an improvement?

**Peter Taylor:** I think so, yes.

**Gordon Jackson:** What would be the forum for that co-operation? Would it be yourselves? I am sorry to be so picky, but I want to be practical. What would be the forum for getting integration between the public sector and the big private players, to ensure that people are not doing their own thing when that is not helpful?

**Paul Murray-Smith:** I am glad that you have asked that question. It is important to acknowledge the leadership role that the private sector can have. Big companies—such as Marriott, Hilton and others—are closely associated with the Scottish Tourism Forum and the trade associations. An exchange of information and business methodology takes place, and that helps. At some levels, marketing advisory groups within VisitScotland and the area tourist boards are involved. That may not be as well developed as we would like. It could be improved.

**Gordon Jackson:** Where does the figure of £50 million come from? I read such figures and sometimes it seems that someone has just sat down and come up with them. Has the figure been calculated, following research?

**Ivan Broussine:** It is still lower than the Bord Fáilte marketing budget.

**Gordon Jackson:** I am sure that it is, but what does the £50 million represent?

**Ivan Broussine:** It represents a 40 per cent increase on VisitScotland's present marketing expenditure. Its present budget is £32.85 million.

**The Convener:** But the question is, how do you reach the figure of £50 million? We know that it is 40 per cent up on the existing figure, and we know that it is less than the Irish figure, but is there a calculation?

**Ivan Broussine:** No, there is not.

**The Convener:** A methodology?

**Ivan Broussine:** No, there is a—

**The Convener:** So, it is finger-in-the-air stuff, is it?

**Ivan Broussine:** Well, it is slightly finger-in-the-air stuff. We have to consider the presence and

profile of Scotland in overseas markets and Scotland's ability to deliver a product and to bring in customers.

**Gordon Jackson:** I was hoping to hear that the £50 million had been calculated by saying that £5 million would be allocated for this, £5 million for that and so on. That would help us to know what the money would be spent on. You seem to be simply asking for more money.

**Ivan Broussine:** I have not done a business plan. However, I could write something down on the back of an envelope and get that to the committee by next week.

**Paul Murray-Smith:** If we had taken the other view and said that we needed more money, you would have asked us to tell you how much more. We were trying to impart the fact that there is a need for further investment not in order to stand still, but to aid recovery. The Exchequer will benefit greatly from the improvement in visitor numbers to Scotland. That is a key issue.

That said, I accept your challenge about the £50 million. The figure might be £40 million or £60 million. The situation needs to be evaluated. As a businessman, I would not say to someone, "Give me £50 million and then I'll think about how I'll spend it." Strings and conditions are attached to any such amount. As a result, although the figure of £50 million can be challenged, it can be justified given the marketing activity that the country needs to push it forward.

**Miss Goldie:** Paragraph 13 of your submission refers to

"frustrations in the industry that agencies established by statute do not listen to and act enough to meet industry needs".

Are you referring specifically to agencies that operate within the tourism structure, or are you including other agencies such as enterprise networks?

**Ivan Broussine:** One of the difficulties with the tourism sector is that there are 22 local enterprise companies, 14 area tourist boards, 32 local authorities and about eight, nine or 10 national agencies or non-governmental organisations with responsibility for tourism. As some of those are membership organisations, they should have stronger accountability to their members. Others are not necessarily membership organisations, but perhaps they should listen to the marketplace's commercial perspective if they are to respond more effectively to the needs of Scotland and the business community. I am happy to be more specific about that.

The general question is how we sustain and develop partnership between the public and private sectors. Furthermore, we must find out

how public and Government investment meet marketplace challenges of commerciality and relevance of investment in order to sustain competitive positioning and new product development and ensure that the quality of the product is effective and that regulation and some of the issues that our COSLA colleagues discussed earlier support the industry effectively.

**Miss Goldie:** You recommend the retention of an ATB network, but in a "pared down" form. Will you expand on that?

**Paul Murray-Smith:** Together with various other organisations, we are making a submission on this issue. As one would expect in such a wide industry, there is a huge range of opinion. We believe that a local delivery mechanism is fundamental to the marketing exercise. If that means restructuring an ATB that will work to deliver the goods, we will help with that process. What the COSLA representatives said earlier is very true. One of the keys to the whole issue is how the funding works. For years, the ATB network has lurched from one mainly financial crisis to another and our ability to continue to deliver and market effectively continues to suffer. That is not an adverse comment on all ATBs—quite the reverse. Some very effective ATBs exist. I am simply saying that we should learn from the good ones and ensure that that good practice is applied throughout the appropriate network. If that means changing the network to make it more effective, we should have the courage to do so.

**Miss Goldie:** Are ATBs really membership organisations?

**Ivan Broussine:** They are at present.

**Miss Goldie:** Directed by whom? I pose the question merely because it seems to me that there must be an irreconcilable conflict of interests if an area tourist board that is directed largely by VisitScotland and funded by various mechanisms, but significantly by local authorities, has a membership that would normally control the whole operation of the organisation but which does not, in reality, do so. In your view, is that a sustainable structure?

**Ivan Broussine:** We made some comments in our submission about the requirement for membership organisations to be accountable to members. We also identified frustrations with the variety and range of institutions and organisations that are involved in tourism. Some of that is about partnership and some of it is about accountability. As Paul Murray-Smith said, there are examples of good practice in some ATBs with regard to accountability, involvement and participation. In other ATBs, there are significant weaknesses.

**Paul Murray-Smith:** Peter Taylor and I would like to say something on that point. One of the

issues that the industry faces concerns businesses that are scattered around Scotland. We have talked for a long time about a pan-Scotland approach for national and local marketing delivery, but so far it has not happened. One could be in one area tourist board but be unable to do anything in other parts of Scotland, because they are separate areas, unless one physically became a member. That answers your question about membership, and that is an issue that we must address. It is a question of getting the best delivery mechanisms for appropriate businesses that are scattered throughout Scotland and not just in the local area.

**Peter Taylor:** I am here today wearing a Scottish Tourism Forum hat, but the view of the Scotland committee of the BHA is fairly radical. That committee believes that the whole structure should be dismantled and, if you like, re-mantled. If you say that it should be pared down, you get into a debate on which bits should stay and which should go, and there are lots of areas of discussion and argument. People who visit this country from overseas do not buy by region. They buy Scotland or they buy a product, be it golf or genealogy, and we must respond to what the customer wants.

There are area tourist boards that are working well, but there are others that are not. The key ones are the gateway locations, and I do not say that only because I am involved in the Edinburgh board. The gateway locations must be supported centrally with funding, so that they can play a dispersal role. Other ATBs may be leading in a specific product. For example, Fife might be doing well for golf, and we could perhaps create a group around that region. There are structures involving whole pyramids of costs, which could at the very least be shared centrally by one network organisation. Scotland should be marketed by VisitScotland, and the regions should be marketed in a national sense, not an international sense, by the regions.

**The Convener:** I ask witnesses to keep their answers a wee bit tighter, otherwise we will not get through all our questions.

**Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab):** I was interested in your response to what I think will be a recurring theme of this inquiry: the silver bullet that is a bed tax. I would be interested in your views on any data from your counterparts in the Balearics about the effects of the bed tax there, notwithstanding the weakness of the euro. I shall park that question, if I may.

I was not convinced by what was said on the more philosophical issue that Gordon Jackson raised about the relationship between the public sector and the private sector. Through public investment, we can help to create a framework

and, to some extent, hold the jackets. Thereafter, however, your submission seems to say, "Give us £50 million and we will get a marketing strategy going, but otherwise the industry should dictate the pace of what we do and where we do it." Is that a right prejudice in respect of your position?

**Ivan Broussine:** I will give a response that relates to the role of VisitScotland, which is a non-departmental public body that receives public funding. The industry has bought in to the branding framework that has been established by VisitScotland's new management team. That framework has much support inside the industry and people like it—it is fresh and attuned to the marketplace. My counter-argument is that the industry is buying in to that framework, which was established by Government resource and investment.

11:15

**Andrew Wilson (Central Scotland) (SNP):** I have questions on several different topics. We undermarket ourselves in respect of the effectiveness of the cash that goes into the budget. We are not good at direct transport links, but there is marketing on a larger scale through the BTA. In the future, can a more substantial case be made for more marketing, so that we can make the case to the Executive in the Parliament? How important is the link between marketing and visitor numbers in the competitive marketplace?

On intra-UK dispersal, Mr Taylor said that there were signs of closer working between VisitScotland and the BTA. Will you say more about that? What are the signs of closer working? Currently, what is done in respect of intra-UK dispersal when people are persuaded to show up somewhere on these islands? How do we get people to come to Scotland?

I will fire out all my questions first. On the transport question—

**The Convener:** I will give you time to ask your questions, provided that answers are kept fairly tight. Two other members have questions to ask.

**Paul Murray-Smith:** Mr Wilson has asked many questions. On the gateway problem, London is a huge gateway for people who come to Scotland and is likely to be so for the foreseeable future, unless something mega happens in respect of direct flights into Scotland. Some things are happening, but London will always be a gateway. However, in a Scottish context, Edinburgh, as a result of its tourism links, is the gateway for Scotland.

I harp back to the pan-Scotland approach when people come to Edinburgh. We have considered mechanisms. The private sector and individual

companies apply mechanisms. If one has a hotel in Edinburgh or Inverness, it is quite easy to say, "Go and stay up there," but a wider issue exists on Edinburgh's gateway approach in particular. There should be an attempt to distribute visitors further and make it easy for them to reach places.

Whatever network is in place for area tourist board delivery, it is extremely important for people to work together. One tourist board should not be allowed to decide to go it alone—that would be unacceptable and would fragment the whole network.

Perhaps Peter Taylor would like to comment on the gateway approach.

**Peter Taylor:** More than 50 per cent of visitors to the Edinburgh TIC come in for information about the rest of Scotland—unfortunately, I have forgotten the exact figure. Most funding for tourist boards is local. It is understandable that a local council should say that it provided funding to help to support Edinburgh and Lothian, for example. A central resource is needed, therefore, to push business out to outlying regions.

**Andrew Wilson:** How do we square that with evidence of people coming to Scotland with fixed budgets and schedules and for fixed periods of time? Perhaps dispersal should aim at return visits. In the UK, what evidence is there that we are winning proper dispersal from the BTA's marketing effort? What dispersal constraints are there within Scotland, assuming that people are here and can be dispersed?

We will never get different area tourist boards to agree that one should take priority. Healthy internal competition is not necessarily a bad thing as long as it is not counterproductive. Are there issues around the transport infrastructure and are other constraints causing a blockage?

**Paul Murray-Smith:** We make the point in our submission that transport and marketing are key areas. Transport is key, because it is the delivery mechanism for tourists. Although we might be going for pie in the sky with this, our having a more integrated transport system is important. By making it easy for the tourist, Scotland could steal a march on many countries throughout the world as a tourist destination. We have to move towards asking what guests who are coming to Scotland are looking for and what they need, rather than considering what we think they need. We have to see the situation through their eyes. We are trying to address that, because that is where the solutions will come from.

**Ivan Broussine:** I agree that return visits are about dispersal. We do not have effective mechanisms for pooling on databases the information on people who come for conferences or leisure visits in order to remarket to those

people. Remarketing is often done by an area tourist board rather than nationally. Return visits are crucial.

We addressed the BTA's role in helping to bring people to Scotland, because we believe that the BTA should have stronger targets and there should be stronger obligations on it to deliver tourists to Scotland, Wales and the English regions.

**Andrew Wilson:** What is happening at present? How are we underperforming in terms of realising the potential of return visits?

**Ivan Broussine:** My understanding is that the prior options review of the BTA, which was held in private, did not set regional or Scottish targets. There is increasing debate, which has been stimulated by similar feelings in Wales, about the BTA's need to turn its thinking on its head. The BTA's obligation to deliver to Scotland or Wales will make it think about the content of its marketing programmes. However, we have to balance that with the strong gateway role of London and the south-east of England—the order is London, Shakespeare country then Edinburgh. The targets are crucial and the Executive should contribute to the setting of them.

I am not comfortable with the idea that we should drive tourism on the basis of healthy local competition, because geographical fragmentation detracts from the priority, which is bringing visitors to Scotland. That is about getting the brand and the national marketing right. Once people are here, we can find ways of dispersing them.

**Andrew Wilson:** That was my point.

**Mr Macintosh:** You make it clear that both VisitScotland and the BTA should make marketing Scotland abroad the priority. Are you suggesting that more of VisitScotland's budget should be spent on marketing Scotland abroad than is spent on marketing Scotland within the UK?

**Paul Murray-Smith:** Yes, but we acknowledge that we have a huge domestic market as well.

**The Convener:** By domestic do you mean the UK?

**Paul Murray-Smith:** Yes.

**Mr Macintosh:** You say in your submission that the 50:50 public and private sector funding that the BTA's one million visitor campaign attracted is not achievable here. What would be an achievable model here? Are you talking about getting match funding from the small number of large companies in Scotland or are you trying to get what Peter Taylor called the awfy wee companies involved?

**Peter Taylor:** VisitScotland has indicated that it is keen to move down the road of match funding. There is no limit to that. If large companies know

that it is available, they will avail themselves of it. It can double our effectiveness and, in effect, double our budget. Small companies have to follow on the coat tails of the large companies and of VisitScotland.

**Mr Macintosh:** Are you saying that the huge number of small companies will, in effect, never be able to contribute in that area, so we should concentrate our efforts on the large companies that have a budget for marketing?

**Paul Murray-Smith:** That is certainly a challenge in Scotland, as opposed to in England. Because of the high level of involvement of large companies in Scotland, there is a difficulty in that regard, but I cannot answer the question whether we could encourage small businesses to contribute to the costs at a given level. It is about cost and effect. If businesses see a vibrant marketing plan, there will be participation. Many groups of like-minded businesses in the tourism sector already get together and market themselves separately. There is a willingness to do that, but the extent to which that pervades the industry is yet to be proven.

**Rhona Brankin:** I would like to tease out some of your thoughts on the role of area tourist boards in relation to small businesses, which are beginning to develop quite independent marketing strategies, for example via the worldwide web. I stayed in a small hotel in Skye that markets itself via the internet very successfully and has high bed occupancy rates. How can area tourist boards help support such businesses? Perhaps they do not need support.

On the relationship with local enterprise companies, you state in your document that more partnership working is being undertaken, which is to be welcomed. There is concern, however, about the role of small business gateways in providing the service that you think necessary.

**Paul Murray-Smith:** Yes. Peter Taylor is our expert on the internet, so I invite him to comment on the business that you mentioned, which I know.

**Peter Taylor:** The small self-help groups that are forming are doing a brilliant job. Some of them have had match funding either from VisitScotland or from local enterprise companies. It is great to see that. It is not that the businesses in question do not need help; VisitScotland can learn from them and can transport such models to other regions or areas. We need to work at spreading best practice.

**Ivan Broussine:** The report from Stevens and Associates was prosaic about the need to drive tourism strategies not on the basis of the large proportion of smaller businesses. Those businesses have a role, however. Unlike in many other sectors, smaller businesses in the tourism

sector are crucial in the supply chain. If someone's experience in Scotland has been generally very positive—for example, they may have got their car as soon as they arrived at the airport and may have gone to a hotel such as the one that Rhona Brankin described—but they have gone into a cafe or a bed and breakfast and have had a poor experience there, that only demonstrates how important it is to raise quality standards throughout the industry.

Many smaller operators like their area tourist board: at least they have an organisation that speaks their language. As far as the worldwide web is concerned, it is being demonstrated that the focus on e-tourism is changing the way in which the consumer finds information and makes purchases, which is making the geographical structures redundant.

**Rhona Brankin:** Aside from my past experience with the hotel in Skye that I mentioned, I now go on to the web when planning a holiday and mix and match. We are working in a fast-changing environment and, in some ways, there are now opportunities to transcend the local. I very much accept the need for a local buy-in, however. The hotel that I referred to does its marketing very effectively, but if the transport infrastructure were to change, that business would be dead in the water overnight.

**The Convener:** I thank the witnesses—their evidence was very helpful.

Our next set of witnesses is from the Federation of Small Businesses—whose evidence you can read in this morning's *Business a.m.* I welcome John Downie, who is the FSB's Scottish parliamentary officer, and John Millward, the managing partner of Fraser Trading. John Downie will give the introductory comments.

11:30

**John Downie (Federation of Small Businesses):** Thank you for the opportunity to give evidence. The committee has our written response to the inquiry, so my introductory comments will be brief. I introduce John Millward, who owns and runs a tourism business. He also represents the Federation of Small Businesses on the Borders local economic forum and is an ex-director of the area tourist board.

In Scottish tourism we have a fantastic product, whether you want to see beautiful scenery, play golf, walk or examine our history and culture. Unfortunately, we have been poor at product development and focusing on customers' needs. Changes at VisitScotland over the past two years have resulted in productive changes nationally. Unfortunately, we have not delivered change locally.

I have spoken to FSB members throughout the tourism industry and there is momentum for radical change, but for change in which the private sector takes the lead and the public sector is more of a facilitator. Our written evidence highlights the fact that we must clarify the roles and responsibilities of the private sector and public sector agencies. I am happy that the research that the committee commissioned seems to reflect the views in our submission. That adds to the debate and gives us a way forward.

**The Convener:** How many members does the FSB have and how many of them are involved in the tourism sector?

**John Downie:** We have 16,000 members in Scotland. Around 4,000 of our members are involved in tourism through hotels and guest houses, but 23 per cent of our membership are retailers, including retailers from such places as Inverness, Ullapool and the Borders. Therefore, in most areas, the majority of our members are involved in some way in the tourism industry.

The tourism industry pervades the whole of Scotland. For example, the number of visitors to Glasgow and Edinburgh means that taxi drivers are in the tourism industry. It is difficult to define a tourism business, but probably 33 per cent of our membership is directly involved in the tourism industry.

**The Convener:** One of your recommendations is to do away with the area tourist board network, whether by dismantling it or otherwise. What would you put in its place?

**John Downie:** In clarifying roles, we must consider the private sector. I referred earlier to industry-led groups. In Ullapool, Jedburgh and other areas, small groups of tourism businesses are getting together in clusters to form marketing strategies and deliver their services. John Millward will speak about that with regard to his area, which is the Borders.

The question is why we need area tourist boards. If they went, we would not need anything to replace them. We have the internet and new technology, and visitor information should be available in garages, shops, hotels and guest houses. The issue is the provision of information to visitors.

VisitScotland's core activity is to market Scotland, but local enterprise companies should be involved in the business development side. Our written submission clearly states that VisitScotland should market Scotland, business development should be the LECs' job and product development should be the job of the industry, which must take the lead.

**John Millward (Federation of Small Businesses):** I agree with John Downie. I come from the Scottish Borders, which has no large tourism businesses, only small ones. A high proportion of the revenue of most Borders businesses is generated from tourism. Therefore, everyone in a small community of, for example, 4,000 people benefits from tourism somewhere along the line.

A grouping of businesses from all sectors has been formed in our area. We would like a much more hands-on approach to marketing the particular attributes of our area and perhaps a link with the central belt gateway of Scotland, if we think that that would be beneficial to us. Earlier witnesses referred to that.

**John Downie:** If I may, I will add to what John Millward has said. I am not sure whether the committee received the British Hospitality Association response, but it was clear about the roles and responsibilities. I agree almost entirely with its proposal on area tourist boards.

**The Convener:** Six members want to ask questions, so please keep the questions tight and the answers fairly tight.

**Marilyn Livingstone:** I want to explore the skills gap, which the witnesses say is due to poor labour market fit. What is your experience of that and how can we change the situation?

**John Downie:** The experience of skills gaps in a wide range of sectors in Scotland has been well documented in the committee's inquiry. Tourism has suffered particular difficulties, because of its poor image due to the low pay in the industry and the fact that many jobs are seasonal. However, changes are taking place. The creation of future skills Scotland should improve the labour market information. A couple of years ago, the Executive formed Tourism People—of which I am a board member—which seems to be getting its act together in putting skills issues at the top of the tourism agenda. The skills that people have are our key asset in tourism.

**Marilyn Livingstone:** What role should partnership play? In my local community of Fife, partnership has been crucial in delivering many tourism initiatives. What is your view on that?

**John Millward:** Sorry, I did not hear the question?

**Marilyn Livingstone:** Under the heading "Enterprise Network", your submission states:

"All business development issues relating to tourism business should be carried out by Local Enterprise Companies."

How do you see partnership with communities sitting alongside some of your other comments?

**John Downie:** The situation would not be any different from what is happening now in relation to other businesses. Whether a business deals with tourism or manufacturing, the business development issues relating to skills are exactly the same. People need to work together with the private sector to find out the needs of businesses and address the skills gaps. Whether the deliverer is a private sector company or a local college does not matter. The partnership role is the role that the LECs play just now in identifying needs and providing solutions to the skills issues. Whether the deliverer is private or public is, in a sense, immaterial.

**David Mundell:** I did not like the tone of John Downie's written response to question 3. It is not helpful to get tourism and agriculture in dispute. One of the lessons from foot-and-mouth was the fact that tourism and agriculture are interlinked. People come to the countryside because of what it looks like, which is partly a product of the way in which it is managed. Promoting a debate about why agriculture gets more than tourism is not helpful. How can rural tourism develop to allow the sectors to be integrated rather than at loggerheads over resources?

**John Downie:** I do not think that the sectors are at loggerheads over resources, but to take the example of the foot-and-mouth crisis, I think that the Executive's focus was basically on solving the problem for agriculture. The impact upon other sectors was forgotten. As I said in my submission, agriculture accounts for 3 per cent of our GDP, but the figure for tourism is much higher than that. Tourism produces many more jobs—[*Interruption.*]

**The Convener:** I hear a pager. I think Brian Fitzpatrick is on fire.

**Brian Fitzpatrick:** I am always alight.

**John Downie:** We need to prioritise according to which industries are generating economic growth. It is not a matter of choosing between tourism and agriculture, but there is a sense in which we must consider which is more important to the Scottish economy. Frankly, tourism is more important than agriculture. I do not say that we should ignore agriculture, but agriculture must change and diversify. The Federation of Small Businesses has members on the agricultural side that have diversified to become tourism businesses. I could give numerous examples of businesses from David Mundell's area that have got out of agriculture and have moved into tourism. It is not a matter of if or when. Tourism is more important to our economy.

**David Mundell:** I do not think that that is a helpful approach. [*Interruption.*] Your members are already phoning in to give their views.

I am interested in your clear opposition to compulsory registration. I understand your point

but, during the visit to Dumfries and Galloway, small tourism businesses argued for compulsory registration. Such businesses feel that they are damaged because people can go into premises down the street that do not have any quality control. How will the quality issue be tackled if we do not have compulsory registration? There are no barriers to entry to the tourism business. Someone can sell a property in Slough, buy a small hotel in rural Scotland—for example in the Borders—and start to operate it without any qualifications. That is a significant issue.

**John Downie:** I agree that that was the case, but the tourism industry is changing; it is becoming too competitive for people simply to play at being in tourism.

There are still issues. For example, the rules mean that bed and breakfasts with fewer than six bed spaces do not have to comply with health and safety and other regulations. If people are in business, they should be in business from when they have their first bed space, without exception. Everyone should have to comply with fire and environmental health regulations.

Changes are required. Many people in the industry see competitors coming in, but we cannot stop people competing. We need new ideas and new people in the industry. Barriers to entry allow poor tourism businesses to remain in business. The customer is the best judge of quality control.

**John Millward:** The industry will find the level that customers require and poor businesses will fall by the wayside. Compulsory registration would go against accommodation providers, but, as I have said, many businesses that are not classified or graded benefit from tourism. All tourism businesses, not only accommodation providers, should have access to public sector support.

**Brian Fitzpatrick:** I am pleased to hear a robust defence of the consumer against some people's corporatism. There is an issue of quality and standards. If I have a bad experience in the Borders, there is a good chance that I will not go back. We have considered proposals for better classification. I assume that those proposals do not contribute to your anxiety about people trying to exclude competitors through compulsory registration.

**John Millward:** Not at all. I run a self-catering business and provide what my customers say they want. I gear my successful business to my customers' needs.

**John Downie:** I agree that better classification is an issue and that the present situation is confusing for visitors.

**Brian Fitzpatrick:** Seasonality has been mentioned. On work force development, it strikes

me that one problem with getting investment from the work force—never mind employers—relates to some of the facts of tourism. Tourism offers opportunities for people to do seasonal work and then to move on to something else. The surly student is probably the best example of that. That is a difficult nut to crack. We can have all the modern apprenticeships that we want, but sometimes the wage rates support only seasonal work and the market does not support anything other than those rates. That strikes me as one of the imponderables. We all mutter that we would like to do something about the problem, but it is not immediately clear what the answer is, apart from everyone smiling a bit more.

11:45

**John Downie:** There are particular problems in areas where tourism is seasonal and involves students from the cities coming to work in different areas. However, there are also core staff who live in the communities who need to improve and upskill. More online training and training in the workplace is now available, but we must establish somewhere where all small businesses can send their staff for training in the close season. One advantage of that would be that staff would be upgraded and would come back better prepared for the next season. Upskilling would force an increase in wages. However, in seasonal tourism businesses on the periphery of Scotland, profitability is a big issue, and a lot of tourism operators have more than one business.

**Brian Fitzpatrick:** Would the FSB support the statutory granting of time off for paid study, provided that that was negotiated with employers?

**John Downie:** Our members would probably not support that during the tourism season. There has been talk of establishing tourism centres of excellence for owner-managers and training centres for staff. In a rural area, for example, one hotel might be designated as the core training centre for staff over the winter. The granting of time off is a tricky issue.

**Brian Fitzpatrick:** We will come back to it.

**Andrew Wilson:** In contrast to what my colleague David Mundell said, I must say that I think that your evidence is excellent. I might not agree with all of it, but the points that you make are very clear and cut straight to the point. That approach is helpful for any committee.

I have two questions. First, do you view the removal of tourism from the enterprise ministerial portfolio as a good thing or a bad thing? Secondly, you may have heard the evidence that we heard moments ago, on the need to reform the British Tourist Authority. In the sixth bullet point under question 4, your submission states clearly that you

see no role for the BTA. Will you elaborate on that?

**John Downie:** We always argued that the best place for tourism was in the enterprise portfolio, as tourism is a core part of our economy, but the industry argued long and hard for a tourism minister. I disagreed with our members on that. Where would it stop? Would we have ministers for manufacturing and electronics? That approach is too sectoral. Taking tourism out of its economic relationships with transport and enterprise is a mistake. The people who have clout in the economy operate in the field of enterprise. Tourism is clearly linked with Scottish Enterprise, business development issues and transport issues, as the Scottish Tourism Forum said earlier. I would have preferred the link to remain in the ministerial portfolio. The industry has got what it wanted, but the proof of the pudding will be in the eating. In two or three years, we will have to make a judgment on whether the move has been effective. We disagreed with some of our membership, some of whom wanted the change and some of whom did not.

The feedback that we get from the BTA suggests that it is not delivering visitors to Scotland by dispersal. We would prefer VisitScotland to get its message across directly to tourism operators and travel agents in other countries, instead of relying on the BTA. We must stand on our own two feet in tourism. The BTA has not been effective in delivering. Having London as a gateway is a clear issue—visitors come from there to Scotland, but not in a number that justifies letting the BTA take control.

**John Millward:** I agree with that statement. Scotland has a characteristic product to offer the international community and it must take a much stronger role in marketing itself abroad. Overseas visitors account for a relatively small proportion of the overall number of visitors who come to Scotland, but they are the highest spenders.

**Tavish Scott:** Mr Downie said that the feedback from members was that the BTA is not delivering. I do not expect you to substantiate that charge today, but it would be useful if you could provide the committee with evidence to support it. I take the point that Andrew Wilson makes about cutting to the chase, but it would be helpful if we could have facts and figures to support some of the contentions in the FSB submission.

My question relates to the point that you make about TICs. You say:

“TICs are becoming obsolete, especially in light of the development of eTourism Ltd.”

Will you clarify that suggestion? The other week, Adam Ingram, Rhona Brankin and I were in St Andrews to investigate golf tourism, and I took the

opportunity to examine the St Andrews TIC. In St Andrews, the TIC has a range of functions, including a bookshop. That is one way in which TICs can develop. I do not think that they are obsolete; they still have a role to play. What evidence is there to support your claim that TICs are obsolete?

**John Downie:** We have long complained about TICs competing with our members—including members who run bookshops in St Andrews. It is a problem if a public sector agency is competing with private sector providers in the same small town.

We believe that TICs should be private sector led. It is fine to have them in an area as long as their existence can be justified and they are run by the industry. They should not receive public sector funding to enable them to compete with other businesses. The role of TICs must change and their operations should not be subsidised. There should be a linked network of tourism businesses that provides information on events such as ceilidhs in Ullapool. If the uptake of information technology increases, it will be possible for visitors to pick up such information regardless of where they are.

We can provide further evidence if the committee wishes.

**Tavish Scott:** You have an interesting perspective on the issue. If the TIC in St Andrews were private sector led, presumably it would be run by a couple of hoteliers who would not see it as being in their interests to pass on information about other accommodation in St Andrews. Surely the free market approach that you advocate would not improve the availability of information to tourists.

**John Millward:** We see TICs as taking on a different role. They could act as focal points for businesses and provide access to means of promoting those businesses. Enterprise companies could make use of TICs to assist small clusters of businesses. TICs would continue to provide hands-on assistance to arriving visitors. However, e-tourism is taking over as the means of drawing people into an area. It gives businesses the ability to promote their area and to reach the point of sale—people's homes.

**Tavish Scott:** I do not underestimate the importance of e-tourism, but I am unclear about the role that you envisage TICs playing. If a TIC is run by a small number of accommodation businesses, I do not see how it can provide information on a level playing field for all the accommodation providers in an area.

**John Downie:** I offer the committee an example from John Millward's area. The Jedburgh Alliance has been formed by local businesses and the local

community to provide a focal point for the development of products and services, such as local festivals, that will attract people to Jedburgh. If the alliance has an information centre, it will be run by the people for the people, in conjunction with businesses. It will not be run by one or two businesses.

It is VisitScotland's task to provide a national network of tourism information. People in Shetland should be able to access information about Dumfries and Galloway.

**John Millward:** Remember that the TICs promote only the businesses that are members of the ATB. The TICs do not promote all businesses. We want the TICs to be focal points for promoting all businesses.

**The Convener:** Given our time scale, it would be useful if you could provide us with supplementary written evidence on that issue for clarification, because in your submission you say:

"TICs are becoming obsolete".

**Miss Goldie:** When I examined your response, I struggled to find the overall strategy that the FSB seeks. In the evidence that we have had, great emphasis has been placed on getting visitors to Scotland. The FSB did not identify that as a starting point, although you make an oblique reference to visitors. Let us assume that we have a national strategy to get visitors to Scotland and let us assume that they come here and have to go through a national gateway for redirection to regional areas. I am not clear about the federation's attitude to how one would redirect those visitors within regional areas. You are suggesting the abolition of ATBs, but I am not clear about what would happen to people who were redistributed to a regional area. What would happen to them?

**John Downie:** People do not come to Scotland to go to regional areas. People come to Scotland to play golf, to walk and to enjoy our food, our music and our heritage. The change in VisitScotland's strategy is that it is product based not area based. Consumer needs are based on what they want to see. They might want to see a castle, visit a museum in Glasgow or go clubbing in Edinburgh. It is not a question of regional areas. That kind of thinking has held Scottish tourism back. For example, people do not just go to the Borders. They might go to visit a castle or Walter Scott's house, but they no longer just go to a particular area. We must focus on that change in why people come to Scotland.

**John Millward:** Customers do not recognise the boundaries of the present ATBs. As John Downie said, they recognise products. Someone who comes from England or Germany does not recognise the area of the Scottish Borders or the

Lothians or Edinburgh or Fife—such labels are fairly meaningless to them. VisitScotland needs to provide a consistent message about overall strategy. Local areas target the aspects in which they think they are strong. That brings us back to the function of the local TIC. As it stands, the ATB network is more or less redundant—it is not recognised by the customer.

**Miss Goldie:** Surely there is still a need for a local delivery mechanism. Some tourists who come to Scotland are signposted to an area, perhaps by virtue of a particular product. When they get to that area, they might want to do more than look at one castle or go to Walter Scott's house. What would happen to them?

**John Downie:** If we had a tourism information network through new technology, tourists would be able to access the information that they needed in a variety of tourism and business outlets. The people that VisitScotland brings to Scotland come here for a reason. They might have planned their visit directly, through the internet, or they might have planned it through a travel agent. They know where they want to go. If they want to go elsewhere when they get here, they should be able to get that information at the touch of a button. The needs of the customer are such that they will go where they want to go and will see what they want to see. To that extent, the redirection issue is not relevant. The VisitScotland strategy, which is based largely on the five product areas, is the way in which we must go.

**The Convener:** Annabel Goldie has a quick final question on that point.

**Miss Goldie:** I am not aware of too many tourists who rush around with laptops, but perhaps I am missing something.

**John Downie:** The laptops will be in tourism businesses.

**Brian Fitzpatrick:** Or the information will be on their phones.

**Miss Goldie:** Training has been mentioned, although it was not specifically referred to in the FSB submission. It emerged that some FSB members are considering the close season as an opportunity for increased training. The impression that I received from the case study in which I took part was that the operators were trying to extend seasonality and to find ways of broadening accessibility for customers. What is the federation's view on that? I assume that members on the operational side of tourism are anxious to broaden their trading period.

**John Downie:** Close-season training is probably more intensive, but even during the busy season most tourism businesses have on-going training of one sort or another, whether through

their LEC, or through old staff teaching new entrants or through online methods. There is no single answer. I was not saying that businesses will train only during the close season. Efforts to extend the season are welcome and might lead to a refocusing of needs, but online training is becoming more and more important to tourism businesses.

**Miss Goldie:** Is extending the season an issue for the members of the FSB?

12:00

**John Millward:** Every business has peaks and troughs. Tourism is perceived to have a high peak and a low trough, but the gap is narrowing all the time. Through local initiatives that are operated by clusters of businesses, we are able to stage a festival or a specific event to draw people in during what are perceived to be low-season periods. However, there are periods during the low season when it would be appropriate to train people.

**The Convener:** Thank you for your attendance. We look forward to receiving further information from you in writing.

I welcome Graeme Munro, the chairman and chief executive of Historic Scotland, and Owen Kelly, Historic Scotland's director of properties in care.

**Graeme Munro (Historic Scotland):** We welcome this opportunity to give evidence this morning. We are slightly different from the other witnesses you have heard from this morning in that we are an agency of the Scottish Executive. We are placed within the education department and report directly to the Minister for Tourism, Culture and Sport. Our mission is to safeguard the nation's built heritage and to promote understanding and enjoyment of it.

All surveys show that historic buildings, those that we care for as well as those in the hands of other people, are high on the list of Scottish sites visited by overseas tourists. We are now the largest operator of paid visitor attractions in Scotland. We conserve, manage and interpret more than 300 sites throughout Scotland, from Galloway to Shetland. We are conscious of our national role and are well able to encourage geographic and seasonal spread throughout the country. We welcome between 2.6 million and 2.7 million visitors annually to the 70 sites for which we charge admission.

In the early 1990s, we received about 2.3 million visitors. The number rose to a peak of around 2.8 million or 2.9 million in the late 1990s. In the past couple of years, the numbers slid back a little to 2.6 million or 2.7 million, but they still represent a significant increase on the position in the early

1990s. Of course, the figures do not include all visitors to the 250 or so free, open access sites that we look after throughout the country, some of which, such as the Clava cairns, the Calanais stones and Glasgow, Dunblane and Dunkeld cathedrals, are rather well visited.

We work closely with VisitScotland on marketing, for example on overseas trade missions, and with area tourist boards throughout the country. We fit well into a number of the niche markets that VisitScotland is developing, such as cities, culture and family history and roots. However, where VisitScotland is focused on marketing, we are primarily focused on product. We aim for quality in all that we do and we hope to match public expectations, which are, quite rightly, always rising.

We put particular emphasis on customer care training for our staff. We seek to spread out the economic benefit of our operations by sourcing goods for our shops in Scotland, as far as possible. We have made something of a feature of local crafts in Orkney, Iona and Urquhart Castle. We also work closely with the conference business sector to help assemble packages to attract visitors to Scotland.

Our events programme has expanded rapidly in recent years: our events and publications have helped to stimulate interest in day and weekend visits in Scotland. That is a useful way of combating the loss of visitors from overseas.

I hope that the paper we have given you is helpful. It concentrates on our direct involvement in tourism through the properties we manage. We also have a strong indirect interest through our historic building grants system, through which we fund the National Trust for Scotland, local trusts, local authorities and private individuals to repair historic buildings, many of which are visitor attractions.

I am happy to try to answer members' questions and to supply any more detailed information in writing.

**Andrew Wilson:** I have a specific question on what you are doing about receipt of the euro at your various outlets. It would be helpful to have information beyond that from Edinburgh Castle about the scale of receipt of euros, how many you are taking and what the transaction cost of providing that service is. You will not be able to give me that information now, but it would be good to get it when you can provide it.

Generally speaking, how is it working? Does it need to be expanded to other outlets?

**Owen Kelly (Historic Scotland):** We provide that service throughout the estate. I will dig out some figures on how many euros have been taken since we introduced the system a few weeks ago.

As our submission points out, we approach this as a service issue. From our staff's observations, we could see that there were people who might take advantage of the facility if it was available.

It is probably worth making clear what we do. We take euros in notes but we give change in sterling. The administrative costs for us are therefore relatively low because we are not giving change in euros. We are not running a thoroughly dual system. I will certainly get that information about the uptake of the facility outside Edinburgh.

**Marilyn Livingstone:** I have a question about what you say in paragraph 20 of your submission. We all agree that if someone comes to Fife, for example, to play golf, they are not going to play golf all the time: they might have their partner with them, or other family or children, so they need to get information about the region or area they are visiting. How is that working? What can we do to improve it?

**Graeme Munro:** We approach that in a number of ways. Our website gives information about all of our sites. We produce a lot of leaflets about properties. In the current year, we have three leaflets—one for the north of Scotland, one for mid-Scotland and one for the south of Scotland. They have been built around Fort George, Stirling and Edinburgh.

We place leaflets widely in TICs, which will always have a role to play. It will not be an exclusive role because we have to use all the media that are available to us. We also advertise our events on local radio and in the press. Those are all ways in which we try to get across to people who are here for one purpose the message that there are other things they can do.

**Marilyn Livingstone:** My supplementary question was going to be about the role of tourist information centres, but you have already answered it.

**David Mundell:** How do you develop and keep the product fresh? What scope do you have to do that? One of the pieces of evidence we have heard was about somebody constructing a new visitor attraction. One of the difficulties with a new attraction is that, after three years, everyone has been and it is stale. The environment is more demanding and most people do not want to turn up just to look at something. How are you dealing with that? As you are a Government agency, do you have the scope to do what you need to do?

**Graeme Munro:** I will pick up your point about visitor attractions becoming stale after a year or two. One of our great strengths is the intrinsic value of the properties we are presenting.

Edinburgh Castle will always have an intrinsic value, as will Calanais, Jarlshof or any other such

site in our care. We have to build on that intrinsic value and provide good-quality interpretation. You are right: we have to keep refreshing and updating that interpretation. What was fashionable 10 years ago will not be fashionable now. We have to move on from the fibreglass figure approach of a decade ago to more interactive presentation where it can be used effectively.

We aim to reinvest in our properties. In the past few years we have concentrated fairly heavily on two major new visitor centres: Skara Brae in Orkney and Urquhart Castle on Loch Ness. That reinvestment was made in response to the shortcomings that we were aware of in our presentation of those sites. I think that, in years to come, we will put more of an interpretation effort into refreshing what we have at some of the smaller sites.

**Owen Kelly:** It might also be worth mentioning that visitor facilities have changed an awful lot in the past 10 years. We have a far greater variety of cafes, shops and so on that really enhance the visitor experience. Not only are the sites great, there is more to do when people get there.

**David Mundell:** I certainly believe that we need local area strategies in Scotland. For example, we might learn that the target market in an area is older people who have a lot of disposable income. Do you co-ordinate with those strategies to ensure that you are not creating a visitor attraction with a lot of children's facilities when in fact the local pitch is to older people? Similarly, if an area is being targeted at the family sector, are you creating children's facilities?

**Graeme Munro:** We aim to cater for all our visitors as far as possible. Breaking the visiting public down into sectors is perhaps more relevant to those who run advertising and marketing campaigns. For example, if you believe that over-50 empty-nesters are most likely to visit an attraction, you might concentrate your marketing efforts on those people, but we have a duty to provide as good a service as we can to all people who visit our sites and to balance their interests.

**Owen Kelly:** That is absolutely right. I should also add that, because of the nature of our properties, there is a limit to what we can do. For example, we cannot put in a child's playground everywhere—or indeed anywhere, although I think that there is one at Caerlaverock Castle. Such constraints exist. Indeed, one of the things that makes this business so interesting is that we are always trying to balance up different factors, of which conservation is one of the most material.

**Mr Macintosh:** My kids love castles, actually.

What is your marketing budget? Is it all spent within the UK, or is some of it spent abroad?

**Graeme Munro:** We spend £467,000 on above-the-line marketing—advertising—mostly within Scotland. That reflects our budget. We advertise mainly to Scots, people who are resident in Scotland and visitors who are in Scotland at any given time, and use press and radio advertising. We have used television in the past, but we are not doing so at the moment.

We also spend £390,000 on below-the-line marketing, which means visits to travel trade fairs, working generally with the travel trade and calling on operators to sell them product such as advance tickets to our properties and explorer tickets that allow people access to any of our properties over a certain period. That also helps us to spread visitors throughout the country.

**Mr Macintosh:** I see that you are engaging in joint marketing with VisitScotland. You have said that it is difficult to measure how effective that approach has been. Is that because it is relatively new? I imagine that joint initiatives would be very successful. Will you be able to assess the effectiveness of that approach at some point?

**Owen Kelly:** The example you mention refers to an exercise that we carried out in relation to the foot-and-mouth outbreak. It was difficult to measure because of its execution, if you see what I mean; the principle itself was not the problem. We engage in joint marketing with VisitScotland and other organisations such as the National Trust for Scotland where that makes sense for a particular market or a particular event. In fact, the example you mention also involved the NTS. It was a three-day package in which people bought a ticket that gave them access to all Historic Scotland and NTS properties, and was promoted by VisitScotland to the south-east of England.

**Mr Macintosh:** Do you carry out marketing nationally rather than locally?

**Graeme Munro:** We do both. We advertise nationally and locally. We place adverts, say for an event, in local newspapers, as well as in the national press. The main brochures that we use for marketing overseas cover all our staffed properties.

**Tavish Scott:** I am tempted to ask about the rail that you put round the top of the broch on Mousa, but I will not.

**Brian Fitzpatrick:** Go on.

**Tavish Scott:** No, that would be unfair on our witnesses.

We heard evidence that 14 per cent of the time a delegate spends at a conference in Scotland is spent in the conference listening to the learned presentations and that the rest of the time is spent elsewhere in Scotland. You mentioned business conventions. Will you describe how you link up

with the Scottish Exhibition and Conference Centre in Glasgow, the Edinburgh International Conference Centre and Aberdeen? That is a tremendous growth area for you and Scottish tourism as a whole.

12:15

**Graeme Munro:** Absolutely. In recent years, we have worked closely with the EICC and the SECC to help them when they put together packages to attract conferences to Edinburgh or Glasgow. We are happy to lay on visits for them to Edinburgh Castle or Stirling Castle, perhaps in the evening, when groups may have exclusive use of a castle after normal opening hours. Occasionally, some conferences have purchased for delegates souvenirs or presents that are associated with those monuments. That is the principal way in which we work with the centres. We also make information available through visitor packs. Most conferences produce visitor packs and we always try to put our leaflets in them.

**Tavish Scott:** I will ask about a wider point. Do you research the people who visit your attractions? Let us take Edinburgh Castle for the sake of argument. Do you research the people who visit Edinburgh Castle and track whether they came to Scotland for business conventions? Is your analysis sophisticated enough to show where things are moving in the right direction and where analysis and increased investment are needed in conjunction with VisitScotland and the business convention people?

**Graeme Munro:** We do a couple of things. We conduct an annual survey of visitors, which gives us much information about where people are from and why they are in Scotland. I am not sure whether we include business conferences as a category. We ask whether people are in Scotland for business or a holiday, for example, but I am not sure whether the category is as precise as "business conference".

We also have a programme of mystery visits, which helps us to identify the perceived strengths and weaknesses of our operation. That relates to Mr Mundell's question about refreshing facilities. The surveys give us valuable pointers on improvements or enhancements that are needed to the service we provide. They also reinforce what we do well, which is good to feed back to staff and helps us identify good practice that we can spread across the agency.

**Rhona Brankin:** I am not sure whether you will be able to answer my question—perhaps it should be addressed to the Minister for Tourism, Culture and Sport. Historic Scotland's core purpose is to protect the built heritage, to educate the public on it and to provide public access to it. Do those roles

conflict with your role in implementing the national cultural strategy? Do they conflict with development of the business side, which is successful in many cases? I am thinking of developments such as Rod Stewart concerts at Edinburgh Castle and your rapidly developing weddings business in historic buildings.

**Graeme Munro:** We are conscious of that potential conflict and we keep it under careful examination. We would not let our properties be used for something that we thought might damage them. In terms of footfall—visitor numbers—most of our properties are fairly sturdy. The two that are probably the most sensitive are Skara Brae and Maes Howe. At Skara Brae, we still allow visitors on to the wall heads, but as part of the new visitor centre we have built a replica house, which people can visit and which may discourage some people from walking on the wall heads.

At Maes Howe, also on Orkney, the number of people visiting the cairn is causing damage to the internal Norse graffiti, which is sensitive to the effect of breath in a confined area.

**Owen Kelly:** On the point about potential conflict, it might also be worth mentioning that the more visitors we get, the greater is the number of people who see those sites as real, living and valuable. We are building support for Scotland's heritage. There is a positive side to those activities as well as the risk that Graeme Munro mentioned.

**Rhona Brankin:** I am keen to explore the extent to which you feel that you have an opportunity to develop the business side, as that is a relatively new role for Historic Scotland.

**Graeme Munro:** I do not feel that we are inhibited in that respect. Over the past 10 years, we have built up from a position where our income was quite negligible to one in which it accounts for well over a third of our total budget. Our income has grown as a result of our admission charges being brought into line with the normal practice of other operators of tourist attractions. Our prices are now comparable and one of the factors that we take into account each year when we set our charges is the normal pricing practice of other operators. Our income from retail sales has gone up spectacularly; our income from selling advance products to the travel trade has increased; and our friends membership has gone up from the mid 40,000s to the mid 50,000s. We have seen a lot of growth in all those areas.

That said, the scope for rapid growth has now largely evaporated. We hope to move forward on a rising trend, but it is more likely that growth will represent an upwardly sloping plateau rather than the steep side of a mountain.

**The Convener:** Four members have questions to ask.

**Brian Fitzpatrick:** I can help—Rhona Brankin has covered my question.

**The Convener:** Right. We now have three members who have a question to ask. We are running very short of time, as we still have to hear from the Office of Gas and Electricity Markets. I suggest that we take the three members' questions together and ask the witnesses to answer them collectively.

**Gordon Jackson:** I have a general question about how we are handling our international marketing. Historic Scotland's attractions are an important factor in that. You mentioned that you are involved in international marketing with VisitScotland. How can we improve international marketing? What are we doing wrong in that respect? I get the impression that the big private-sector players are not integrated into our international marketing systems. In general terms, what changes would you like to see in our international marketing?

**Miss Goldie:** My question follows on from Gordon Jackson's. You have a robust marketing budget. Is your product so sellable that you can stand alone? If not, do you link with other agencies in terms of marketing? If so, to what extent?

**Mr Ingram:** I have a short question. In paragraph 165 of your submission, I was fascinated to see that you attribute a pick-up in visitor numbers

"to increased short-break visits generated by low-cost flights into Scotland."

Will you expand on that statement? Will you give us your thoughts on that aspect of your business?

**Graeme Munro:** I will take the first two questions together. The single thing that I would most like to see improved in our international marketing is its packaging. I want people to be able readily to purchase a holiday in Scotland that combines travel, accommodation, information and tickets for visitor attractions. The web is key to that. However, a role also exists for the private and public sectors to work more closely together to develop packages.

We do not try to stand alone on marketing: we try to fit in with the trends that VisitScotland establishes. We welcome its approach to niche marketing and we want to fit in with it. Our staff meet VisitScotland staff regularly to discuss how best we can align our marketing programmes. We work closely at the local level with area tourist boards and other providers in the areas where we operate. We do not see ourselves as standing alone, although we have a strong product and strong contribution to make to Scotland as a whole and to Scotland the Brand.

In common with many other operators, particularly in the Edinburgh area but to some extent in other parts of Scotland, we experienced an encouraging increase in visitor numbers last November, December and January. Largely anecdotally, we all put the increase down to the advent of low-cost flights into Scotland from the south of England, Ireland and continental Europe. People were taking short breaks, perhaps long weekends, often on impulse. That will be a key market for us in the future. I hope that it will continue.

**Owen Kelly:** There was evidence of a sharp increase in visitors from Ireland at that time. That is one of the reasons why we made the connection.

**The Convener:** As I live in Ayr, I can vouch for that.

Thank you very much. Your evidence has been very helpful.

## Electricity Trading and Transmission Arrangements

**The Convener:** We now move on to item 3. I welcome Callum McCarthy, who is chief executive of the Office of Gas and Electricity Markets and chairman of the Gas and Electricity Markets Authority; Margaret Ford, who is a member of the Gas and Electricity Markets Authority; and David Haldearn, who is Ofgem director for Scotland and Europe. I believe that David is the successor to Charles Coulthard.

I welcome all the witnesses to the committee. I particularly thank Callum McCarthy, because he has taken the initiative and expressed a great deal of enthusiasm over several months for having a session such as this. I am sorry that we have not been able to fit you in before now, but recent events mean that this is probably quite an appropriate time for you to talk to the committee.

**Callum McCarthy (Office of Gas and Electricity Markets):** Thank you very much for letting us come to the committee. We will not waste your time by making a long introductory statement. I would like to say two things. First, Ofgem's principal objective under the statutes that give us our legitimacy is to protect the interests of consumers present and future, wherever possible, by promoting effective competition. We take that very seriously. Secondly, the reason why we wanted to come to the committee is that Scottish customers are at the top of our agenda. One of the four corporate priorities for Ofgem in the corporate plan that we published for 2002-05 is to bring more competitive prices and greater choice to electricity customers in Scotland. We look on this meeting as an opportunity to explain to the committee why we have made that a priority, how we are tackling it and to answer your questions.

**The Convener:** I will kick off with a couple of questions. First, do you have any social justice remit in addition to your competition remit, which I understand is core? I have come across a number of cases of power companies that are competing with one other by visiting elderly people and very often confusing them. Competition has a role, but sometimes the effect of very aggressive marketing—getting older people to change company regularly, sometimes at great cost to themselves—is an issue, particularly in poorer parts of Scotland.

Secondly, given recent events and taking the Scottish economy into consideration, the situation with regard to British Energy is of concern to people in Scotland. From reading very closely about the role of Ofgem in that situation, it seems that it is in effect impossible for your new pricing

regime to work and for us to have a viable nuclear energy company such as British Energy. There seems to be a conflict there and it seems to be the case that never the twain shall meet. I would like your comments on that.

**Margaret Ford (Gas and Electricity Markets Authority):** I will take the issue of what we are going to do about mis-selling. I will hand over to Callum McCarthy on the second question.

The Utilities Act 2000 gave us specific statutory responsibilities and a new organisation, energywatch, was created at the same time. It took over about 25 per cent of Ofgem's previous duties. It is the consumer body that addresses the individual complaints that people bring to it. There is an energywatch committee in Scotland and a well-resourced office in Glasgow. The Utilities Act 2000 gave Ofgem the powers to act when we see systematic mis-selling and we can assemble a case against companies that are behaving badly in the marketplace.

Only in the past two months has the Government given us the full ability to discharge the powers, which are quite hefty. If we come across a clear case of mis-selling or companies misbehaving in the market, we have the power to fine them up to 10 per cent of their turnover, which is quite a serious penalty in anybody's terms. We mean to take that very seriously. In a recent discussion we concluded that only when the Government took pensions mis-selling seriously did the industry clean up its act. When we come across a clear case of mis-selling we will not hesitate to act, but we have not been able to do so until relatively recently.

12:30

**The Convener:** How are you able to publicise your role? Most people do not know where to go with a complaint, unless they go to an MSP or MP. We need more publicity to let ordinary people know what the score is.

**Margaret Ford:** Absolutely. We had a long meeting with energywatch Scotland to talk about how it can do more. We can work with the Scottish Consumer Council, which is keen to help in this area so that people do not feel bewildered by the doorstep salesman who may or may not be behaving properly.

**Callum McCarthy:** Before we leave the question of mis-selling and ensuring that competition works, I want to come back to your question about whether we have a social justice agenda as well as a competition agenda. The answer to that is emphatically yes. One of our principal concerns is to ensure that competition works across the whole social structure. We are determined to maintain what is happening at the

moment, which is that competition is benefiting the poorest people—single parent families or people with disabilities—as much as or more than the generality. That is terribly important to us.

On British Energy, there is a great deal of misunderstanding about what the new electricity trading arrangements are. Much of the discussion has suggested that Ofgem somehow controls wholesale prices, but it is extraordinarily important to acknowledge that we do not control such prices.

The move that was made in March last year—which I regret to say is confined to England and Wales, although one of our major plans is to develop it for Scotland—was to replace rather artificial arrangements that were made at the time of privatisation in England and Wales. Those arrangements made the wholesale electricity market stylised, easy to manipulate and not competitive and they have been replaced with arrangements that make the market as competitive as possible. Some 95 per cent of electricity is traded either long term over the counter or short-term through power exchanges. Ofgem has no responsibility for that whatever. In so far as it is regulated, it is, like any other market, regulated by the Financial Services Authority.

There is a need in any electricity market for a system operator—in England the National Grid Company and in Scotland the two transmission companies—to organise the balancing of electrons moment to moment. That is unavoidable; it happens in every country in the world. Something like 3 per cent of electricity goes through that market and we do not control it. Ofgem's principal responsibility is that when there are rule changes in the market we have a right of veto to prevent the rules from creating a cartel. An artificial and non-competitive market has been replaced with a competitive market. All generators are now competing in that market.

**The Convener:** That has been a major contributory factor to the downfall of British Energy.

**Callum McCarthy:** Since those and other changes were first mooted four years ago, there has been a significant reduction in generating prices. That has caused problems for some generators, but it has also brought great benefit for industrial and commercial purchasers of electricity in particular and it has replaced an uncompetitive market with a competitive market. The uncompetitive market had behaved to the disadvantage of the country.

**Miss Goldie:** I am not shy of defending competition, but your principal objectives in law are to protect the interests of consumers, with the qualification "wherever appropriate", by promoting effective competition. How does Ofgem strike a

balance between the natural instinct of supporting a competitive market and the possibility of introducing uncertainty or insecurity of supply? The British Energy situation is causing the real concern in Scotland that, if supply is not reinstated or is lost altogether, energy problems will follow. I am not sure where Ofgem sits in trying to balance those two obligations.

**Callum McCarthy:** Our principal obligation in the Utilities Act 2000 is to protect the interests of consumers. We also have a number of other obligations, which we take very seriously including security of supply, environmental objectives, and ensuring that the companies that we regulate that are not in the competitive sector are properly financed.

It would be completely inappropriate for me to comment on any particular company—we do not do that. However, in general, what is critical for security of supply is whether plant owned by a company will continue to operate irrespective of the financial affairs of that company. That question has been very much in our mind, in relation not only to recent events but to past events.

**Miss Goldie:** That reply is very helpful. I must say that I welcome your appearance before this committee this morning—it is a positive innovation. To what extent is Ofgem able to engage with a devolved Administration such as the Scottish Executive?

**Callum McCarthy:** We happily talk to the Scottish Administration. Indeed, three of us have this morning seen Mr Henry to discuss a number of issues. We have had discussions with past First Ministers. We discuss all matters with the Scottish Executive and the Westminster Government.

**Brian Fitzpatrick:** I endorse what was said by the convener about difficulties that people encounter; I am sure that all members have had similar experiences in their own constituencies. My experience of energywatch has been very positive. When matters are drawn to its attention, the people there know what is going on. They are also happy to interact with constituency members. I am pleased that energywatch is working. However, many people do not yet know about it.

There is always a balance between effective competition and clutter. As a constituency member, I have come across a number of cases of people finding themselves with a plethora of suppliers and not knowing what is going on. People cannot get a tour guide for the suppliers. In one absurd instance, a chap had to go through a six-week process to get data on which particular form of meter should be installed for new arrangements at his home. His problem was that, although it was all very well having lots of information, no one was showing him the tramlines

to allow him to get to it. After getting involved with the industry, I was not confident that there were tramlines within the industry as a guide to what standards of information should be common among installers, suppliers and the like. What is being proposed in that regard?

**David Halldearn (Office of Gas and Electricity Markets):** You are right. There are standards in the industry. Because of the way in which we were set up by the Government, customers' first point of contact is with energywatch. Once energywatch has assessed the case, we provide information and—when necessary, and when such information is provided to us—advice on taking enforcement action. As Margaret Ford said, we have new enforcement powers that we are determined to use, where that is appropriate.

We are trying to improve the joining up of work that is done by us, energywatch and other consumer organisations, so that it will be easier for customers with a problem to know where to go to get a response that addresses their specific need. There is more work for us and the consumer organisations to do towards that, but we are determined to improve the situation as quickly as we can. We have dialogues with the consumer organisations and we are developing better ways of working.

**Tavish Scott:** I have two questions. First, you talked about the social justice element of your remit and about ensuring that competition is advantageous to all groups in society. What about the geographic coverage of competition?

**Callum McCarthy:** Taking as a measure of competition the switching rate—which is not the only measure but a convenient one—there are two things that worry us. First, there are difficulties among the older population, who switch less than other people, perhaps because of natural conservatism. We are working with Age Concern to see whether we can ensure that the competitive offering is appreciated and understood by older people and that they do not feel threatened by, for example, aggressive selling. Secondly, there is a lower switching rate in the countryside, on a GB basis. There are two reasons for that, the first of which concerns the distribution of gas. The customer can make a bigger saving if they receive competitive offerings for both electricity and gas. The offering for electricity alone is less attractive. The second reason is that, up to now, one of the most powerful means of getting the competitive offering in front of people has been doorstep selling, and that is much less economic in the countryside for obvious reasons—the doorsteps are further apart.

**Tavish Scott:** I am not aware of any competitive selling in my part of the world.

My second question relates to renewable sources of energy. Both Scottish and Southern Energy and Scottish Power are running renewables projects. I am interested specifically in the transmission lines. If the role of renewables is to grow in the provision of energy in the UK as a whole, power will have to be exported from Dounreay all the way to the south coast. That will incur a considerable infrastructure cost. Does your remit cope with that need for investment? Government policy is clearly to drive towards a 40 per cent provision of power from renewables over a period. That investment is needed; how it will be made is a good question. However, if your remit is to drive down cost on the basis of competition, how does that square with Government objectives on renewables and the nation's desire to see more clean energy produced?

**Margaret Ford:** We are engaged in work on BETTA—the British energy trading and transmission arrangements—and have asked the Government for legislation early in the next session. We understand that we will be given an opportunity to start that process in the autumn. The transmission side of that is just as important as the trading side. We are trying to do two things. We are trying to bring a more competitive offering to Scotland because we know that pre-privatisation electricity prices in Scotland were 5 per cent less than those in England and Wales, whereas the prices are now 9 per cent more. We want to do something about that. Secondly, we are addressing the issue of transmission, which you have raised.

If a renewables industry is to be developed, we need a route to market for the energy produced, and the current arrangements, including the financial and physical structure of the market, do not facilitate that. We want to ensure that we have a genuine UK market, where the companies that are generating renewable energy in Scotland have a route to market and where Scottish or other companies have the right investment incentives to invest in renewable energy. What we are working on now requires primary legislation because we do not currently have the powers to achieve it. That would address both the trading side and the transmission side.

**Tavish Scott:** So you do not envisage circumstances in which it would be uneconomic to develop renewables. The conventional thinking is that they will be at the margin. You do not see your competitive requirements getting in the way of the development of renewables on the west coast of Scotland, for example, where investment in transmission lines will be significant.

12:45

**Callum McCarthy:** Last Tuesday we held a big conference on almost exactly that issue. I do not

think that most people in the country generally recognise the scale of the change involved. If the Government's present targets are to be met—and I think that the targets for Great Britain are more likely to be increased than decreased—that will involve a huge change in the structure of generation and the distribution of energy within Britain, and therefore in the infrastructure of the wires that would be needed to serve that.

To give a specific example, any distribution network operator, such as Scottish Hydro-Electric or Northern Energy in England, probably has about 300 distributed generators in the whole of its network. If we achieve the targets set for 2010, every single substation is likely to have 300 distributed generators attached to it. That involves a huge change in thinking. The reason why we held a conference last week was to get the companies to start thinking about that seriously and to expose to them the range of ideas that we are prepared to develop with them in order to deal with exactly the sort of problem that the committee has identified.

It is important that we do not simply wire up the country from north to south and from east to west without having some proper demand lying behind that. We are looking for a proper means of carrying out the task so that we can respond effectively and quickly to real demand, but not on the basis of sloganism. That would be environmentally disastrous and would be very bad for customers, because very substantial sums would be involved.

**Andrew Wilson:** I have some specific questions on the third paragraph of Ofgem's written submission, on the lack of competition in the wholesale market, specifically on the cost implications of that. Do you have a money figure for the 9 per cent extra that Scottish customers have to pay on average compared to the average figure for England and Wales? What does that difference mean in terms of the total market price? In other words, what is the value of the Scottish market?

**Margaret Ford:** Do you mean the difference on an average bill?

**Andrew Wilson:** That and the overall size of the Scottish market. Those are figures that I do not have at my fingertips.

**David Halldearn:** The overall size of the electricity market in GB, at the retail level, is about £10 billion. The Scottish part is about 10 per cent of that, so it is about £1 billion.

**Andrew Wilson:** That is slightly above Scotland's percentage of the population—that is the point that you are making. A premium is being paid in Scotland largely because of the lack of competition in the wholesale market, to which you

allude in your submission. Is that lack of competition feeding through because of inefficiency or because of excess profit taking?

**David Halldearn:** That is a difficult question. In a competitive market, one would expect competition to drive companies to be more efficient. Competition in fact provides quite a big incentive for companies to improve efficiency. The Scottish companies are also active in the England and Wales market, which is very competitive. Inevitably, the extent to which companies are not being efficient means that resource is wasted; the extent to which they are efficient will feed through to companies' profit lines. I am afraid that I could only give that general answer to what was a hard question, but it is the best that I can do.

**Margaret Ford:** We do not attribute the whole difference to the lack of a competitive market. Some genuine costs are involved on the part of the Scottish companies; so is the way in which the industry was structured at the time of privatisation. We are not saying that the whole gap is down to the companies' behaviour; some things to do with the way in which the system is structured in Scotland are outwith the companies' control.

**Andrew Wilson:** What are the proportions involved?

**Margaret Ford:** It is difficult to get the specifics, as the information is quite difficult to disentangle. We could do some more work on the question and give you some more information, but it is difficult to be precise.

**Andrew Wilson:** You say specifically that a lack of competition is the main reason for the higher price of energy in Scotland, so it must amount to more than 50 per cent of the difference.

**David Halldearn:** The justified extra costs that Scottish companies face do not account for the whole difference. Those costs relate specifically to the operation of wires. Because of Scotland's geography, some wires are very long and serve areas that are not highly populated with customers. That has cost implications.

Some of the costs that companies face relate to the restructuring contracts that were put in place at the time of privatisation. Some of those contracts, which are complex documents, still exist but are due to end quite soon.

The figures that the companies have provided suggest that the extra costs resulting from restructuring contracts and the cost of wires are about equivalent. However, there are other factors. In Scotland there is a huge surplus of generating capacity, which is much greater than the surplus in England and Wales. In those circumstances, one would expect wholesale prices to be pretty competitive. In fact, because we

regulate wholesale prices, they are pegged at more or less the same level as in England and Wales. In a properly competitive environment, one would expect wholesale prices to be focused much more sharply, which would benefit customers.

Some of the restructuring contracts will also come to an end. In a competitive market, one would expect the benefits of that process to flow through to the customers and to have a serious impact on the price difference.

**Andrew Wilson:** I am still confused about the root of all the problems. It would be useful if you could provide the committee with some figures.

**Margaret Ford:** We can do that.

**David Mundell:** What role do you play when new generators come on board? Is your role simply to regulate what is produced? Do you have no part to play in determining how much is produced?

**Callum McCarthy:** The Government has powers to license new generation as it comes on stream. It used those powers when there was a moratorium on new gas-generated energy plant. We have limited licensing powers, which we use to ensure that we get information from generators. We play no part in deciding whether there should be an increase in generation.

**David Mundell:** So you play no part in determining the relative cost of energy.

**Callum McCarthy:** No. The determining factor in generating prices is now a competitive market.

**David Mundell:** Let us take the specific example of further nuclear development in Scotland, which I support. Many statements are made about the relative costs of nuclear and renewable energy. Does Ofgem or another body determine whether those statements have a factual basis and evaluate them in terms of competition?

**Callum McCarthy:** We do not. It is Government policy to have a renewables obligation. The Government has set the value of that obligation. Ofgem administers the renewables obligation certificate system, both in England and Wales and, separately, in Scotland. We work with the Government in an executive capacity. However, quite properly the size of the renewables sector, the nuclear sector and sectors based on other forms of generation is an issue for elected members of Parliaments rather than for Ofgem. It would be inappropriate for 11 appointed members of an authority to make decisions of that magnitude.

**Rhona Brankin:** I would like to ask about the requirement for companies such as Scottish

Power and Scottish and Southern Energy to buy in a proportion of their production from nuclear generators. What impact does that have on competition?

**David Halldearn:** When the industry was privatised, a contract called the nuclear energy agreement was put in place. The output of the two Scottish nuclear plants is sold to Scottish Power and to Scottish and Southern Energy, which are obliged to buy that output. Those companies account for about half of Scottish consumption, so that agreement has a major impact on the potential for competition in Scotland. The contract was due to end in 2005 and the companies have been in active negotiation about it—indeed, they have been to court about it. It clearly has a major impact, but it is due to end quite soon.

**Margaret Ford:** One of the reasons why we were keen to get the new trading arrangements for Scotland in place by 2004 is that we saw the end of that agreement coming and it was extremely important that British Energy had a market for that energy. That was another part of our thinking about changing the Scottish trading arrangements.

**Mr Macintosh:** I was glad to read your comments about signing up to the social action plan for low-income and vulnerable families, but I would like to get a rough idea of how your system works. Do you monitor the service provided to low-income and vulnerable families and do you have targets for the wholesalers? Are there set targets for the number of more expensive pre-payment systems or the number of disconnections? Do you monitor those figures, impose targets and put pressure on the companies to improve their record?

**Callum McCarthy:** We carefully monitor those and a number of other parameters. We do not have a mechanism for imposing targets, but we have a degree of moral suasion that we use as powerfully as we can. Ever since Ofgem was set up, one of our great concerns has been to deal with the terrible scourge of fuel poverty that exists throughout Great Britain and particularly in Scotland.

It is important to recognise that there are three causes of fuel poverty. One is that people are poor, another is that they are in lousy housing and the third is energy prices. Of those three, we can make the biggest impact on the third. We hope that the Government will do something on energy efficiency measures to improve the housing stock. Through lower energy prices, we can also improve incomes generally, by making the country more competitive. However, the main thing we can do is on energy prices; the reduction in energy prices over the past five years has been the biggest single cause of bringing people out of fuel poverty.

**Mr Macintosh:** So you are effectively encouraging greater corporate and social responsibility among the companies.

**Callum McCarthy:** We are also trying to establish best practice in particular companies and to ensure that it is applied in other companies. Some of the Scottish companies have been very good at developing ideas and we want to encourage others to imitate that.

**The Convener:** I thank Callum McCarthy and his team for their extremely helpful evidence. We very much appreciate your coming.

Before I conclude the meeting, I should point out that this is the last meeting that Ellen-Raissa Jackson of the official report will be attending. Members may not all know her by name, but she has been here since the Enterprise and Lifelong Learning Committee began. The bad news is that we are going to lose her, but the good news is that she is going to the BBC—I hope that she will give us very fair coverage once she is there. We wish you all the best, Ellen. Thank you very much indeed.

*Meeting closed at 12:59.*



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