



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 2 February 2022

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

4th Meeting 2022, Session 6

CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

DEPUTY CONVENER

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

COMMITTEE MEMBERS

*Alexander Burnett (Aberdeenshire West) (Con)

*Maggie Chapman (North East Scotland) (Green)

*Jamie Halcro Johnston (Highlands and Islands) (Con)

*Fiona Hyslop (Linlithgow) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Colin Smyth (South Scotland) (Lab)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Marc Crothall (Scottish Tourism Alliance)

Rob Dickson (VisitScotland)

Vicki Miller (VisitScotland)

Stephen Montgomery (Scottish Hospitality Group)

Leon Thompson (UKHospitality)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 2 February 2022

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning and welcome to the fourth meeting in 2022 of the Economy and Fair Work Committee. Our first item of business is to decide whether to take items 3 to 6 in private, and whether to have next week's meeting in private. Are members content to take that business in private?

Members indicated agreement.

Tourism and Hospitality

09:01

The Convener: Our next item of business is an evidence session on Scotland's tourism and hospitality sectors, which is designed to provide the committee with a snapshot of the sectors as we recover from the pandemic, in recognition of the important role that they play in Scotland's economy.

We have two panels this morning. I welcome the first panel. Marc Crothall is the chief executive officer at the Scottish Tourism Alliance, Stephen Montgomery is spokesperson for the Scottish Hospitality Group, and Leon Thompson is executive director of UKHospitality Scotland.

If all members and witnesses could keep their questions and answers concise and to the point, that would be helpful for our timings this morning. I will start off the questions.

Obviously, we have been living through the pandemic, which has been extremely difficult for the hospitality and tourism sectors. In more recent months, at the end of 2021 and into the new year, the omicron variant presented further challenges. Will you tell me about the support that was made available? Omicron was—to some degree—unexpected, and there was an attempt to deliver support quickly.

I will invite all witnesses to answer that; however, if they could be brief, that would be helpful. I invite Leon Thompson to come in first.

Leon Thompson (UKHospitality): Good morning, convener, and thank you very much for the question. As you said, the omicron variant caught everybody by surprise. The restrictions, combined with public health messaging, impacted massively on the hospitality sector. Given that, the Scottish Government moved to find funds and make those available for impacted businesses.

The funding was never intended to cover losses but to help with cash-flow issues. About £100 million was made available for hospitality businesses, along with a further £5 million for nightclubs, which were ordered to close, and £10 million for businesses impacted by the table-service-only regulations.

As far as I am aware, that funding is still making its way out to businesses, which is very disappointing, because the money was needed in the immediate aftermath of announcements from Public Health Scotland and restrictions being imposed by the Scottish Government. Although it was helpful to have that funding announced, we still have businesses waiting to receive their funds.

The Convener: I will bring in Stephen Montgomery next. I also want to know about how businesses have been identified for funding. I understand that there is a desire for flexibility, but has the approach been helpful, and is the funding reaching the businesses that need support?

Stephen Montgomery (Scottish Hospitality Group): Thank you very much for inviting me to today's session. I concur with what my colleague Leon Thompson said. However, I add that the funding has not been distributed in a targeted way. The same old way of doing that through the non-domestic rates system was used, so it did not matter how affected you were by omicron—you still got the funding.

It has always been the job of the Scottish tourism recovery task force—on which Leon and I sit—to make sure that the funding was targeted. However, that has not been the case. I have spent all this week trying to get on to different councils to get that funding out.

The same applies to the public house table service restrictions fund, which is being rolled out as well. The applications for that have still not gone out. The funding will go to public houses that have been affected. However, many public houses are actually restaurants and many restaurants are actually public houses, depending on how they appear on the NDR register.

The Convener: Mr Crothall, can you comment on that, and on the way in which funding is being delivered? The previous two witnesses said that they would like to see more targeted funding, but is that a challenge in relation to getting the money out quickly? Is there a balance to be struck between getting the money out the door quickly and doing something that is more granular in relation to identifying who needs support?

Marc Crothall (Scottish Tourism Alliance): Thank you for inviting me to the session. The biggest challenge is how to get money quickly to businesses in the shortest time. The hospitality sector is diverse and wide; it has a lot of different components. However, if we look at the broader tourism industry as a whole—which ranges from those operating self-catering properties, guest houses and hostels to tour operators—everyone has been, in one way or another, directly impacted by omicron.

Having a balanced, fair and proportionate response will always be hard, and having a response that would make the most impact and provide the most support was going to be difficult, but the £100 million—plus the extra on top—for the tourism sector was never going to achieve that goal. We would support much more targeted and concentrated measures, but we would not want any business to fail.

Most significantly, as we all know, the Christmas window was a critical time for all businesses in the sector, particularly for those in the hospitality sector and in the immediate supply chain, to make the cash that would see them through the next three months. There lies the big challenge of the liquidity of businesses.

The Scottish Tourism Alliance conducted a survey over the Christmas period, which was part of a United Kingdom survey that my colleagues in England and Wales did, to assess the impact of cash liquidity in business. More than 53 per cent said that they have less than two months' cash reserves to navigate their way through, so grant support is hugely important for everyone.

The blend of respondents to the survey was far and wide—it was not just the hospitality community that responded; tour operators and other people responded. All felt the impact of having no international business and trade. Festivals were also cancelled, which was the last hurrah for any potential inbound activity.

To go back to your first point, it is really important to have a targeted response, but unless the level of support is significant, it is difficult to make that meaningful for any business in the current climate.

Alexander Burnett (Aberdeenshire West) (Con): I refer members to my entry in the register of members' interests in relation to tourism. I have a quick question about support for longer-term recovery. A few weeks ago, I had a good meeting with VisitScotland, which explained that, during Covid, it has been able to pivot its budget to focus more on capital expenditure projects in readiness for the return of tourism. How effective has that been? Has that approach ended? If not, should it end?

I direct that to Leon Thompson first, to be followed by Stephen Montgomery and then Marc Crothall.

Leon Thompson: The hospitality sector needs as much support as it can get right now, because we are not out of the woods in relation to the pandemic or the on-going challenges that the sector faces. Anything that VisitScotland can do as part of its activities this year, particularly in relation to promoting and marketing Scotland and the hospitality sector, would be very welcome. Ultimately, we need a strong year of trade and to be able to attract visitors. We have done well in the domestic market, but we need a big focus on the international and business markets, because that spend will make the difference to businesses that are looking at their depleted cash reserves and wondering how they will manage to continue.

From the hospitality point of view, getting the marketing and promotion message right for the

right audiences is a key ask of VisitScotland, so that we can start welcoming people back in good numbers, including those who spend more, which is the case with international and business visitors.

Beyond that, the big focus for UK Hospitality Scotland is on pushing the UK Government to retain VAT at 12.5 per cent. That is a key measure that would make a big difference to hospitality in the coming months. With the Scottish Government, the conversation is around business rates relief and whether the 50 per cent that is in place from April to the end of July can perhaps be extended further through the financial year, particularly given the losses that have been incurred by businesses over Christmas and new year.

Alexander Burnett: Thank you. Would anyone else like to comment?

The Convener: Stephen Montgomery, would you like to comment?

Stephen Montgomery: Yes. Again, I concur with what my colleague Leon Thompson has said.

If we look at Westminster, the all-party parliamentary beer group—the APPBG—has launched an inquiry into the rates system in England and the effect that business rates have had on the licensed trade sector. To go back to what Leon has just said, maybe something similar needs to be set up in Scotland, so that we can have an all-party discussion on how we look at business rates.

Last December, we were all looking forward to a bumper Christmas. However, omicron hit us, costing the sector more than £1 billion of turnover. The fact that we are getting rates relief now for the following year is probably out the window; that relief is capped at £27,500 per business, so as far as SHG members are concerned, it probably equates to a saving of about only 3 per cent. We really need to look at that issue very soon and think about how we can save businesses money, because recovery will not happen overnight.

Customer confidence is really low, so we need positive messaging coming out from all parts of Government and from Opposition parties as well. That really needs to be a key feature in any recovery for hospitality.

Alexander Burnett: Thank you. Marc, do you have anything to add to that?

Marc Crothall: Yes, I do. Recovery must be a joined-up effort. The importance of international visitors has been well stated. Pre-Covid, there were 3.9 million international visitors, who were spending a significantly greater amount than those from the domestic market. We would anticipate that there will also be an outbound spike this year, with many more domestic holidaymakers who

have supported the industry over the past two years exiting the country and going abroad.

A survey that was done in the past couple of days by a well-respected organisation in Scotland found that 59 per cent of Scottish adults are still likely to take a holiday break but possibly only one break this year. It is important to note that household budgets are being stretched as well.

Investing in that international piece is absolutely key. I know that VisitScotland has a lot of activity already under way, but we cannot lose sight of the need to support the tour operator community and the supply chain that very much brokers a lot of that activity and then provides services and delivers on the ground, which in turn feeds in to the hospitality community and, importantly, the attractions and the adventure operators.

We need a combination of the right conditions to drive resilient recovery, such as favourable financing conditions for servicing debt and enabling investment so that the sector can stay competitive. As Stephen Montgomery was just referring to, the level of relief in business rates is very small, and for a large operator or for any operator that is looking to be diverse and adapt to the net zero agenda, it does not really help them at all, particularly with the loss of income over the festive period.

We need a supportive fiscal policy and proportionate legislation, and a consistent policy response that is well co-ordinated. We also need to allow businesses to embrace technology. The digital boost programme is good and the industry is being innovative, but we need to have a variety of funding. We would ask for the recommendations made by the Scottish tourism emergency response group—STERG—as part of the phase 2 recovery proposals to be looked on favourably and supported, as well as the—*[Inaudible.]*—and process of delivery that need to be sustained going beyond that.

We need business rates relief and low levels of VAT. Along with Leon Thompson's organisation, the Scottish Tourism Alliance sits on the UK tourism industry council. To go back to the survey that I referred to earlier, part of its intention is to help inform the Treasury and sway a favourable response from it.

Alexander Burnett: Thank you. I know that colleagues will come in on much of what you have said.

09:15

Maggie Chapman (North East Scotland) (Green): I have a couple of questions. I will start with one on the numbers. What occupancy rates and footfall have been seen, particularly over the

past few months? How have things looked in your sectors? What are you projecting for the coming year? I am interested in hearing about the short term at the moment.

I ask Marc Crothall to respond first, to be followed by Leon Thompson and then Stephen Montgomery.

Marc Crothall: I will let my colleague Leon Thompson update you on occupancy levels in the hotel sector.

There are different positions. The cities, in particular, have been heavily hit in terms of occupancy and forward bookings. A lot of that is about the need for international visitors and business tourism. The value of business tourism to the total tourism pot was £2 billion pre-Covid. That is the challenge for cities.

Many rural properties, particularly those in the honey spots that are well managed and have a good and loyal following, have done okay and there are forward bookings. The self-catering sector is also reporting relatively strong bookings for the first quarter and beyond. However, people may now choose to go abroad, which is something to watch out for.

Last year, we saw a lot of bookings being held for self-catering and bed and breakfasts. Then there was a flip, and those domestic bookings were cancelled, with people choosing to go abroad in the short windows that they had. Now, a lot of people have refrained from making sizeable deposits, so that is a challenge.

The golf tourism sector has carried over a lot of its bookings into this year. Its challenge is to find capacity and accommodation for any new bookings that are made in 2022, let alone for golf tee times.

Building that future pipeline of business is important. It remains a challenge and business is certainly not at the level that we would want it to be. In our survey, we asked what businesses had seen a decline of more than 50 per cent in their bookings for the first quarter. I think that more than 50 per cent had seen such a decline. We are not yet confident that there will be an upturn, but, with the messages changing recently, we hope that there will be. However, we cannot rely 100 per cent on a shored-up—[*Inaudible.*]*]*—going forward. The self-catering sector is the one that is likely to perform most strongly in the first quarter.

Maggie Chapman: Thank you. I ask Stephen Montgomery, too, to speak about the rural-urban difference that Marc Crothall identified, if there is one in relation to your sector.

Stephen Montgomery: The question is more Leon Thompson's bag, as far as the UK hotel sector is concerned. However, I can comment on

where the SHG is. We operate throughout rural areas and city centres. As Marc Crothall mentioned, city centres have been hit hard because of the reduced footfall resulting from the message to work from home. It will take a long time to get back from that.

Rurally, the situation again depends on the restrictions. Customer confidence is at an all-time low, and that can have a real impact, as was the case when the Public Health Scotland message came out last December. Pubs with wet sales only—that is, pubs that sell alcohol but no food—took a massive hit in December, and it will take a long time to get back from that. Footfall was down to about 25 per cent because of the requirement for table service only.

I go back to the same point. It will be customer confidence that brings people back not just in city centres but in rural areas. Hospitality will have to play a big part in city centres in helping retail, and retail will have to play a big part in helping hospitality. Together, they will, I hope, bring people back. We also need to bring people back into the office, which will help us all.

Maggie Chapman: I am interested to hear Leon Thompson's thoughts.

Leon Thompson: I will add to the comments and observations from colleagues. Members in the hotel sector in the cities are reporting occupancy rates of 20 per cent to 30 per cent, and there is little confidence that they will be adding to that level this month. Things are fairly static at the moment. Cities have been badly affected and that is still the case, which is why we need to see a big uptick in international visitors and business visits, because business visitors will add to the numbers, to the spend and to the occupancy rates for hotels.

In rural areas, the picture is a bit different. Forward bookings look good for spring and summer as people are looking for holidays. As we know from what happened during the pandemic, rural and coastal areas are performing quite strongly as people have chosen not to go to cities.

For the cities, we need to see some energy injected into the offer. We need to see the return of events because they would give people more reasons to be there, and we need to highlight the great experiences that people can have in our cities safely. That is absolutely critical.

I have been invited to join a city centre task force advisory group, which will, I hope, help to frame some of the response to support our city centres as they seek to recover.

Maggie Chapman: I am now interested in thinking longer term. International experts are saying that full recovery does not look likely until at least 2024, so I suppose that there is a question

about how we deal with the next two years. However, are there discussions in your respective sectors about the fact that full recovery in 2024 will not mean that the sectors will look like what they looked like pre Covid? What innovation, changes or diversification are happening? What pressure points do you need us to focus on to ensure that we have a vibrant and sustainable tourism and hospitality sector in the future, especially if we are thinking about non-pandemic challenges such as the climate emergency?

Marc Crothall: That is a very good question. I just want to go back to my earlier point and clarify that it was 34 per cent of the businesses that responded that said that their booking levels were down by 50 per cent in the first quarter.

There are some positive things to take away from the situation. In the nine months of this fiscal year, 480 new enterprises have started up in the sector. There is therefore clearly entrepreneurship out there, and some businesses that were already in the sector have invested a lot in technology and finding different ways of bringing different products to market.

The critical need, however, is for us to make a competitive offer and respond to what the consumer trends are telling us and to customer expectation. We have seen a lot of growth and new development in hotel stock in the cities. New Virgin properties are opening up in Glasgow and Edinburgh in the coming weeks, for example.

We have seen a good number of acquisitions taking place. Only yesterday, Argyll Holidays transacted its business for more than £100 million, which is a sizeable investment from a business, and many other investors are coming in. In one respect, that has to be a good thing, because you hope that those investors will bring the much-needed finance that will help to transform some of the properties, but we have to ask why those operators, many of whom are long-established, have decided to get out. Possibly, the strains of the past two years have taken their toll.

The Scottish tourism emergency response group and the task force recommendations go back to responding to what needs to be done. Again, labour supply is probably one of the most critical issues that we face. We can drive demand and grow all the demand that we want, but we still do not have a workforce of sufficient size and scale to deliver the volume and capacity levels that we need. Solutions to that are therefore urgently needed, and a number of initiatives are under way. We will continue to invest in the workforce that we have already.

The observatory project, which is one of the first-phase projects, needs to be sustained, because it will provide a repository of insights and

data that will inform businesses' marketing initiatives and investment plans. Importantly, given that their capital will probably be very challenged, the project will help them to make less risky decisions on their investment.

I refer back to all the first and second-phase proposals that have been tabled by the emergency response group. Each of those is highly important; the challenge is how we prioritise them. It is unquestionably the case that there remains a critical need for people. Stephen Montgomery made a point about messaging. Negative and restrictive messaging about the uncertainty that exists does our recruitment activities no favours at all. We need to be positive about the opportunities that are available in a sector that, before Covid, employed 229,000 people, which was virtually one in 11 in the economy.

Stephen Montgomery: Again, that is a very good question. Hospitality still faces significant challenges as it suffers from the long-term effects of the pandemic. As well as the increases in supplier and utility costs, there is the recruitment crisis that Marc Crothall mentioned. Even the "Businesses in Scotland 2021" publication that the Scottish Government put out identifies that about 1,000 businesses in the accommodation and food sector were lost between 2020 and 2021. We need to look at that. In mid-2021, the BBC reported that there were 9.7 per cent fewer restaurants than there were before Covid.

We also need to look at the situation in city centres. As we came out of the lockdowns, outside trading was allowed. That will be key for hospitality businesses in city centres, and it will help retail. That gives customers a choice. When people were not allowed to have alcohol inside, that led to outside trading. In Edinburgh, Glasgow and all the major cities, pavement service was allowed. That will be fundamental as we move forward. We must look at the licensing regime, with a view to allowing that to continue, because it gives people—whether we are talking about inbound tourism traffic or local traffic—the European feel. Enabling people to have the choice of sitting outside will restore customer confidence.

On recruitment, the Scottish hospitality group has been involved with Dumfries and Galloway Council in devising a training programme. I do not know whether Colin Smyth is aware of this, but I would invite him to attend one of the meetings. We hope to release a pilot at the end of February. It will be a 12-week course for anyone from 16 to 60 who wants to get into the hospitality sector or who has worked in hospitality before—we would call such people silver servers. I am talking about people who got married, had their kids and their kids are now at university and who want to come back into some kind of part-time work. We are

able to offer that. That 12-week course will include all the various aspects, from barista training and cocktail training to front-of-house and housekeeping training.

We want to play a major part by working with Government and taking our own initiatives to solve the recruitment problem. We no longer have the European workers, so we must start looking at how we can build for the future. We are not talking about an overnight stopgap. If the 12-week course goes well, we can think about running it on a recurring basis and rolling it out in other areas of Scotland with different councils.

Leon Thompson: Businesses appreciate that things have changed and that recovery will take a while. It is key that the Scottish Government gives us a clear road map through the situation that we are currently in and a strategic framework that largely discounts things such as restrictions and closures, which are holding back hospitality from getting on the road to recovery.

Hospitality is a very resilient and adaptable sector, as it has shown throughout the pandemic. Despite the existing challenges that Marc Crothall and Stephen Montgomery have referenced and that are highlighted in the paper that I sent to the committee, positivity still exists in the sector in relation to what it can do and deliver and what the future can look like. However, the key point is that we need our businesses to be in a position in which they are free to trade and operate, free from the restrictions and challenges that are in place.

09:30

We know that customer behaviours have changed, too. The issue of consumer confidence, which we need to rebuild and restore, has been mentioned. We look forward to working with the Scottish Government to do that work to encourage more people back into hospitality and to take breaks in other parts of Scotland.

We also know that business travel is unlikely to return to the levels that it was at previously. One way of saving money, which businesses are obviously looking to do, is for people not to travel for business so much. That point links in with the net zero agenda, which you mentioned and which is a really important issue for hospitality, too.

The sector is considering how it can change and adapt. Net zero is one of the top priorities for hospitality, so the sector is working hard to lower its emissions with organisations such as the Zero Carbon Forum, which provides road maps for hospitality businesses to reduce their emissions. That point ties in with Scotland being a sustainable destination, and hospitality is a key part of achieving that goal.

The Convener: As we have touched on labour market issues, I will bring in Gordon MacDonald next, but I want to clarify a point with Leon first. You talked about the city centre task force advisory group. Is it centred around Glasgow in particular?

Leon Thompson: No. It is driven by the Scottish Government. I can send you more detail on that group after the meeting, if that would be helpful.

The Convener: Thank you.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I move on to the labour issues. We all hope that hotels return to their pre-Covid and pre-Brexit occupancy levels, and that restaurants start taking up the opportunities when people start travelling again, whether they be staycationers, business travellers or international tourists. However, we need the staff for that to happen.

Leon Thompson's briefing paper says that there were 340,000 vacancies in the UK and around 40,000 in Scotland, and that 40 per cent of businesses were not confident in their ability to recruit staff during 2022. What do we need to do to take up those challenges and take advantage of the opportunities? How do we close that labour shortage gap?

Leon Thompson: Thank you for that great question. The labour shortages are probably the most pressing issue for many businesses now that we are looking at higher levels of trade in the coming months and wondering how they will deliver everything that they need to deliver. The key point is that there is not one way of managing that situation and finding a solution. It will take a collaborative effort between industry and our Governments—the Scottish Government and the UK Government—to achieve an uptick in applications for the existing vacancies.

As well as the short-term challenge, we face long-term challenges. In the short term, we need to encourage more people to consider jobs and careers in the sector—perhaps people who are not working at the moment and school leavers. We work closely with the Department for Work and Pensions on the kickstart scheme and other initiatives to bring people into the workplace.

Jobs and careers in hospitality are great opportunities for young people and, indeed, people of all ages, so we are working closely with Government departments on their initiatives to maximise the benefit to hospitality of being involved in those initiatives and schemes. That kind of activity, as well as the work that we did last year with the Scottish Government—a £100,000 social media campaign was run to encourage primarily younger people to consider jobs and careers in hospitality—can help in the short term.

In the longer term, we need to get the talent pipeline back on track. We have had two years of disruption. There is still a lot of interest and a lot of people are coming through hospitality courses in our colleges, but that has been disrupted. I hope that that will start to be repaired and those people will start to come through into jobs in hospitality. That will help as well.

We also need to look at our immigration system. Post Brexit, we do not have an immigration system that is fit for purpose. We really need the UK Government to examine that urgently and to establish additional routes for people to come and work in the UK and in Scotland. It would certainly help if some of the visa thresholds were lowered, for instance.

We also need creative thinking on measures such as the youth mobility scheme. Can that be extended to more countries, such as the European Union 27, so that young people come and work in Scotland not only in peak season but at other points in the year? That would be beneficial for cultural exchange and exchange of skills. There are lots of great hospitality schools in Europe. It would be great if we could attract young people who had been through training in those schools into our hospitality businesses.

There is no quick fix. There is no one way of addressing the issue. We need to use all the existing initiatives. It is important to talk up the sector as a destination for our young people. We have to accept that, in the long term, Scotland will rely on labour coming from overseas to work in our businesses.

Gordon MacDonald: Leon Thompson talked about the need for a new immigration system to attract workers, including, for example, the visas for which the hospitality industry called last year but which the UK Government rejected. Unemployment in Scotland is at a record low of 3.6 per cent, which is below the level at which there is considered to be full employment. At a briefing of Edinburgh Chamber of Commerce on Friday, it was said that 90 per cent of the employees in the hospitality trade, particularly in Edinburgh, were EU nationals. Many of them went home because of the pandemic, but because of the end of free movement, they are having difficulty returning. How do we close the gap?

Marc Crothall: [*Inaudible.*—question. Leon Thompson raised some good points that I absolutely support, as I think we all do.

The Scottish Tourism Alliance was having conversations with the Scottish Government and UK Government pre-Covid about the challenges that the industry—which was thriving, of course—faced in filling labour gaps. Those gaps are not just in hospitality. I stress that the shortage of

labour is a challenge not just in one part of our industry but right across the sector, from visitor attractions to outdoor adventure operators. There are a number of factors. We need a better visa system.

Our industry is international. Culture, language and so on are hugely important. People go around the world to embrace different cultures, but they also want people who can guide them in the right language and deliver vibrancy in their communities. To go back to the point about city centres, I believe that we need vibrancy there, too.

As for what we are doing in the short term, I want to touch on the tourism and hospitality talent development programme. The Scottish Government has invested in the first and second phases of it over the past year since Covid. The business response to it has been co-ordinated by the industry through the Hospitality Industry Trust and the Scottish Tourism Alliance. More than 2,000 colleagues came through the first programme of online activity, which focused primarily on supervisory management and leadership programmes. As Leon Thompson pointed out, we need to bridge a particular gap by finding supervisory talent and upskilling people quickly to ensure that they are more effective—and, of course, to ensure that they can earn more money and that productivity improves. That successful programme has been funded through the innovation fund, and I am delighted to report that the programme has brought in 1,450 applicants from across the whole sector, not just hospitality.

There has also been a commitment from industry to invest in its current workforce in recognition of the various challenges. In the months during Covid, we saw the sector appealing to people and drawing them in to work in it, but the attrition rate among those individuals was very high, which we put down to the fact that the front-line managers who would normally have given new entrants their induction and a good experience of coming into a new place of work actually had their heads down the toilet—I hope that you will excuse that expression. Because they were having to physically do all the cleaning and so on themselves, they were unable to look after the new people as they wanted to. That is a challenge. We need more changes in the immigration system and more freedom of movement to attract more talent into the country.

I have always highlighted organisations such as Springboard—which Stephen Montgomery works closely with through its advisory board—that bring young people and people who might have had a bad start in life into a sector where employment can be created and where careers can accelerate very quickly. We are talking not just about waiters

or barmen, but about digital marketers, accountants, engineers on mountain railways and so on.

As we say, tourism is everyone's business. That message needs to be reinforced by the teaching community, particularly in secondary schools, and profiled by all of us in society. The National Parent Forum of Scotland, too, has a big part to play in this. We need to give people of all ages a true understanding of what a career in tourism can deliver in this current climate.

Gordon MacDonald: We have highlighted the need to attract new talent into the hospitality industry. Given that we have full employment, that many EU nationals left the country pre-pandemic and that there is no hospitality visa, Edinburgh Chamber of Commerce suggested on Friday that there should be a devolved immigration policy. Would the Scottish Hospitality Group support that, Stephen?

Stephen Montgomery: Absolutely—we would support anything that gets talent from anywhere in the world into Scotland to support recruitment. When the SHG took part in a Westminster Scottish Affairs Committee evidence-taking session, I brought up that very issue. We have had various meetings to try to encourage the UK Government to open up the visa system.

On where we are with recruitment at the moment, I have always been one for going back to basics. We need to bust the myth about hospitality being about jobs with long hours and bad pay and being badly run. When you see advertisements for joining the Army, you do not see anything about people having to go to war and so on; instead, they talk about giving people a great career. In a great initiative called "Hospitality Rising", we are trying to raise £5 million for a television advert that will be broadcast across the country to encourage people into the industry.

We also need to get into secondary schools really early on. I have done that sort of thing through Springboard, and I hope that we can get back into classrooms very soon. However, we sometimes get to people too late, so in the longer term we need to look at foundation and modern apprenticeships and workplace experience, not just to encourage people into hospitality but to bring back people who had previously been in hospitality for years and years. As I have said, we can do that by busting the myth that hospitality is a bad place to work. We also need to look at the wellbeing of our staff by opening up the books and finding out what we can do to make our staff feel comfortable and valued and see that they are well paid.

09:45

Colin Beattie (Midlothian North and Musselburgh) (SNP): Good morning, panel. One thing that has come home to me in the course of evidence taking is the sheer complexity of the hospitality and tourism business. It is incredibly diverse, especially if we start taking into account local and international supply chains and so forth; then, we are talking about a fairly complicated beast to deal with. That makes it quite difficult to target support at one particular sector, because the knock-on effect all the way through businesses is extremely complex.

We have talked about various parts of the hospitality and tourism business. How would you describe the overall financial status of the business in terms of cash flows and—this is important—the levels of debt that some businesses might have taken on during the Covid emergency, as well as hangovers from before it? I ask Leon Thompson to kick off.

Leon Thompson: I think that businesses are at the end of whatever cash reserves they had leading up to Christmas. That period of six to eight weeks would normally have given businesses a huge boost in revenue to sustain them through the early months of this year, but the fact that Christmas and hogmanay did not happen in the way that was expected has put additional pressure on businesses that were already struggling with cash reserves. According to the Office of National Statistics, somewhere around two thirds of businesses have less than three months of reserves. That was in a survey that it published in December 2021. A quarter are saying that they depleted their cash reserves, and—

Colin Beattie: Can I just break in there? You mentioned 2,000 businesses. It is already agreed that the hospitality and tourism sector as a whole is incredibly complex. Where are those 2,000 businesses in terms of the overall picture? Who are they? Are they hotels?

Leon Thompson: When you say 2,000 businesses, are you referring to the STA survey?

Colin Beattie: Yes.

Leon Thompson: Okay. I was giving you statistics from the ONS business insights and conditions survey that was published in December 2021, which provides UK-wide snapshots of what is happening.

The STA survey included a very broad sweep of hospitality and tourism businesses. A good number of my members—hotels, bars and restaurants—participated in that survey. Businesses from the self-catering accommodation side were also included, as well visitor attractions, activity providers and so on. Marc Crothall will

have a clearer picture of all the sectors that responded to that survey. From that very broad sweep of businesses, the survey presents what I would say is a very accurate picture of where businesses are in terms of their cash reserves.

You also asked about debt levels. Debt levels are at an all-time record high, and those debts are now having to be paid back. That is obviously putting additional pressure on the many businesses that are really only starting to begin to trade again after the Christmas and new year restrictions. They are in very challenging circumstances, and that goes for larger entities as well as smaller businesses. The financial pressures go right across the board.

Colin Beattie: Just to clarify this in my head, are you saying that the 2,000 businesses that are referred to in the survey were across the UK?

Leon Thompson: If we are talking about the STA survey, they are Scottish businesses.

Colin Beattie: So the 2,000 businesses that you referred to are Scottish businesses alone?

Leon Thompson: Did I refer to 2,000 businesses?

Colin Beattie: Yes, you did.

Leon Thompson: Right, okay. I was quoting figures from the ONS's business insights and conditions survey.

Colin Beattie: Were the 2,000 businesses in the ONS survey?

Leon Thompson: I suspect that there would have been more than 2,000 businesses that were covered as part of that survey.

Colin Beattie: Thank you. I will ask Marc Crothall to comment.

Marc Crothall: I will provide some clarity on the Scottish position, because we can give a breakdown by the types of business that are reported as being in financial difficulty.

I would like to come back to a comment in your question about the complexity of the sector. There is a consequential impact from other things in and outwith the sector that have a direct bearing on businesses' ability to trade. That goes back to the point about labour. The lack of affordable housing, lack of the right accommodation and lack of transport infrastructure are significant and critical to our being able to address the situation.

To come to the point about financial difficulty, we surveyed 1,335 businesses, of which 26 per cent were hotels, guest houses and bed and breakfasts. Ten per cent—130 odd—pubs, bars, restaurants and cafes responded. A good proportion—36 per cent—were self-catering

properties and caravan parks, and visitor attractions made up just under 10 per cent. Tour operators were in a similar position.

Seventy-eight per cent of serviced accommodation providers—hotels and guest houses—said that they were in financial difficulty. The self-catering sector, or unserviced accommodation, has had relatively strong trade. However, not all properties have traded at the same level. The larger self-catering properties were impeded by restrictions and were unable to trade, and 54 per cent of self-catering providers are in financial difficulty.

Pubs, bars and restaurants are the most volatile and have had to be dependent on footfall into cities, where many of them are located. Eighty-four per cent of the 100-plus pubs, bars and restaurants that responded are in financial difficulty. Sixty-two per cent of the attractions that responded and 76 per cent of tour operators and coach operators, which are heavily dependent on international movement, said the same thing. They are all concerned. The majority have probably borrowed and are now faced with VAT returning to 20 per cent. While business rates relief is welcome, it is relatively low in comparison with the financial benefit. On top of that, there is no cash and limited trade through the tills, and there are low cash reserves.

We do know, and I believe that the banks have told us, that many businesses have borrowed and possibly have bounce back loans that are sitting in deposit as a last gasp, because they are concerned about how they will service that debt going forward, if business does not return.

The problems are right across the spectrum, which is why I go back to the point that I made in my opening comments about the importance of favourable financing conditions for servicing debt and enabling investment, so that Scotland stays competitive against our competing destinations. We need a supportive fiscal policy with proportionate legislation that does not input additional costs for businesses in the sector, to allow them to recover over the coming 12 to 18 months and have a strong spring, summer and autumn trading period.

Colin Beattie: I will pick up on a couple of points. You touched on rates relief and seemed to indicate that that is not tremendously beneficial in some ways. However, since 1 April 2020, businesses—not just in the tourism and hospitality sector—have saved a total £1.6 billion in rates. That is not inconsiderable; it is a fairly large sum.

I would like to explore debt levels. You mentioned the bounce back loans: if they have been drawn down, businesses have not spent them because they are afraid of repayments. We

have heard about that in previous evidence. To what extent is that an issue?

Marc Crothall: On your point about rates relief, nobody is going to say that any rates relief that the sector has received has been unwelcome, and whatever we get in the future will be exceptionally welcome. We had no trade at all in 2020, and we had very limited trading opportunities in 2021. The burn rate per day of a medium to large hotel is around £25,000 in some quarters. The amount could be much higher; it is proportional to the size of the business and its rates relief.

The rates relief has been very welcome, but the cost of maintaining the basic overheads of a business and just sitting with the lights on—or off—with no customers is exceptionally high. Those businesses are part of Scotland's assets that draw people to come and spend their money here.

I cannot quantify how many businesses have done that with bounce back loans. A huge number of businesses have taken not just bounce back loans but coronavirus business interruption loan scheme loans, and have already invested in their assets. They have also had to spend that money to service debts and help to pay for some of their overheads.

Furlough was not a free ticket for anyone. Obviously, trying to retain staff came at a cost to business, and that cost gradually grew over the course of the Covid pandemic.

For those who have done as Colin Beattie said, that money is on deposit, but it will not be, given the size of overheads that businesses will have to service to be competitive and reopen in March. Many of them will reopen in March, but that comes at a cost. Businesses cannot just switch on the lights without having to spend a fair bit of money on basic maintenance and on ensuring that they are safe and well equipped to receive guests in the summer season. I am sure that whatever money there is will go very quickly. However, I am not in any way saying that the majority have tucked away money into a reserve account for a rainy day—indeed, quite the opposite is the case.

Colin Beattie: I want to take a different angle on the matter and ask Stephen Montgomery a slightly different question. How well have businesses been supported by VisitScotland and the enterprise and skills agencies? Are there lessons to be learned from that experience?

Stephen Montgomery: That is a difficult question to answer. I think that VisitScotland and Marc Crothall and his team at the STA have done everything that they can do, but there has been the omicron variant, and everything that we have gone through in the past 20 months has been so changeable. We have faced different things every

week. During the past 20 months, it has been hard to chart a way through that, because we have been constantly put down with restrictions, or we have come out of restrictions and gone back into them. The question is therefore hard to answer. Maybe Marc Crothall would be better placed to do that, because I am not involved with the STA.

However, I can give members some specifics on debt levels. The average small to medium-sized pub is between £80,000 and £85,000 in debt, and nightclubs are between £160,000 and £175,000 in debt. A lot of limited companies will have taken bounce back loans and used them to service debt or to live on, because directors got absolutely nothing for support, whereas self-employed people got their tax back, for example.

Marc Crothall referred to furlough not being a free ticket. That is absolutely right. Across our membership, we paid out £196,000 per week on tax, national insurance and pension contributions to keep the furlough scheme alive. That gives members some background information.

In my own business, we were 42 per cent down between the 2019 and 2021 accounts. That is £462,000 on a £1.1 million turnover. That is a big drop in sales, and there will be a long way to recovery.

The Convener: I apologise to the deputy convener, but we will have to make some progress. Michelle Thomson will be followed by Jamie Halcro Johnston.

Michelle Thomson (Falkirk East) (SNP): Good morning, everybody. I apologise—I am remote, but I hope that you can hear me okay.

I want to ask a couple of general questions, to which I will take answers from all of you. The committee continues to be interested in how women specifically in your sector have been affected by the pandemic. Do you routinely disaggregate and collect data on the specific impact on women? What are your observations on how they have been affected? What are your thoughts on how that could be rectified? Perhaps Marc Crothall would like to answer those general questions first.

10:00

Marc Crothall: Our industry is probably one of the most diverse and inclusive industries out there. The majority of participants in the tourism and hospitality online learning programme that I referred to earlier are women. We also have some fantastic female leaders in our industry. We have a great body called Women in Tourism, which is integrated into our networks and right across the country. My own team are all women, and I could not do without them.

We talked earlier about the need to look inwards at our businesses and at how we can be more flexible with working hours, and attract more diverse talent of all age groups, at how we can balance home lifestyles, which has become a new thing for a lot of us. Kids have had to learn at home, and there are a lot more opportunities for people to work from home, which opens up more career opportunities across all levels of the businesses to men and women.

Right now, I can stand proud—I am sure that my colleagues on the call can say the same—and say that the women in our industry are very much part of our industry and there are some great leaders. Kate Nicholls is the chief executive of UKHospitality, and Emma McClarkin heads up the British Beer and Pub Association. There are also many female leaders in the UK Tourism Industry Council. It is, however, important that we continue to make sure that those adjustments in our ways of working open the door and make us more flexible.

Mental health was also touched on earlier, and that is not just for the women in the industry; it is for the wider workforce. The industry has taken ownership of that and we have some great mental health and wellbeing programmes that have been supported and helped along by Scottish Government funding to deliver that support to everybody.

I understand the question, but I can stand tall and say that I believe that women in our industry are a very important part of the sector.

Michelle Thomson: Thank you for that, Marc, but before we move on, do you have hard data on women-led businesses, and do you routinely disaggregate that data in any surveys? I am heartened by the warm fuzzy feeling that I am getting from you, but data is everything.

Marc Crothall: I personally do not have it, but I am reasonably confident that Women in Tourism, which is an established organisation, will have it. Skills Development Scotland collects such survey data regularly. Yes, it is something that we review and not just by sex but by age group and geography.

Again, it comes back to some of the points that I referenced earlier about having transport infrastructure, housing and all the key ingredients of the right back-up in destinations, particularly in rural communities, to attract couples and families to settle in those areas and, ultimately, to work in the industry.

I can speak to my colleague Susan Russell, who is the chair of Women in Tourism as well as Lawrence Durden at Skills Development Scotland, and bring the data the committee.

Michelle Thomson: Stephen and Leon, in no particular order, could you answer the same question?

Stephen Montgomery: I back Marc Crothall and everything that he has just said. In my business, we have 42 members of staff and 34 of them are female. I could not do without them; I really could not. They have certainly supported me throughout the pandemic and I thank them for that. As Marc also said, we have some great ambassadors throughout tourism in Scotland and in the UK as a whole. Marc mentioned Emma McClarkin and Kate Nicholls, who have done fantastically.

I would stand by any agenda that was proposed to promote females in hospitality, which is predominantly a female environment. We work an open-door policy, as does every business in the hospitality industry, where we have female mentors or whatever the case may be.

As I said, I totally agree with what Marc Crothall has just said.

Michelle Thomson: Is it not the case that, given the high proportion of women in tourism and hospitality already, you are already well versed in some of the flexible working practices that have now been introduced in other sectors? After all, women often have to juggle multiple elements in their lives. Would that be true?

Stephen Montgomery: Yes, I think that that would be fairly true. As Marc Crothall has just said, we are very flexible in hospitality. In older times, males would have been out working while females would have been home looking after kids or whatever, but that has all changed. In the past 20 months, we have had working from home, home schooling and so on, and businesses have had to adjust to the situation. However, it has been a really positive move that has opened everything up and which means that we have to do this. We are not through this yet—and will not be until 2024 or 2025 at the earliest—so we have to embrace flexible working and address the mental health and wellbeing of our employees. If that means promoting our female staff or staff of whatever gender, that is the way we will go, and I will stand by any agenda that promotes it.

Leon Thompson: I just want to echo what my colleagues have said. Hospitality is, I believe, one of the most gender-balanced sectors in the country and, given that my chief executive has been namechecked, I just want to highlight the great work that Kate Nicholls has done not just for UKHospitality but for the whole sector.

We cannot be complacent about the impact on our women workers. We know that a lot of people have exited hospitality, and we need to understand the gender split in that respect. I

cannot give you any data on that at the moment, but I might be able to come back to the committee with something that might be helpful. In fact, we are currently running a benchmarking survey, and I will take a look at how that is rolling out and the questions that are being asked about gender so that we have a UK-wide picture of what is happening.

It is important that we recognise the challenges that women have faced over the course of pandemic in juggling home life, challenges with work or furlough, cost pressures and so on. As employers, businesses are good at looking at flexibility in, for example, shift patterns, but they will have to become better at it if they are to attract and retain talent. That will certainly be a key feature of what happens. We should also look at women returner programmes to encourage women who have left the sector to come back into hospitality.

Obviously, all of this chimes with fair work issues, too. Flexibility is going to be key for all our employees as we move towards recovery.

Michelle Thomson: Thank you for that. If any of the three of you have any data, please send them to us. According to statistics that we have seen, for example, women-led businesses have decreased from 21 per cent in 2017 to 14 per cent just now. It might well be that this particular sector is slightly exceptional, but it would be useful to know that and to start to understand some of the themes involved.

The Convener: We are a bit pushed for time, and three members still want to ask questions. If members and witnesses could be concise, that would be helpful.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning, panel. I want to ask a question about support and another about the rural economy.

My first question, which is for Marc Crothall and Leon Thompson, is about competitive funding and support. The STERG meeting notes of 21 October highlight that the tourism sector in Ireland will be receiving €288.5 million for support, promotion and so on in 2022, which is an increase of €67.6 million. I think that the total fund works out at about £240 million. In the same year, VisitScotland will be receiving around £49 million. Although there are other areas that support the tourism sector, some of those areas—such as Highland and Island Enterprise’s budget and certainly local government budgets—are being squeezed as well. Can you give us an idea of where we sit with our support of our tourism sector compared to our competitor nations?

Marc Crothall: That is a good question. Obviously, we would always like more money. The

VisitScotland budget is £49 million, as you say, and thankfully that has been protected—it has not gone backwards. Funds have also been distributed to destination groups through the STERG recovery plan, which has enabled the destinations to activate marketing campaigns over and above the national marketing campaign.

You referred to the islands; we saw some amazing exposure of our islands on media programmes—documentaries and so on—which was great. A lot of secondary benefit came through marketing activity. However, we need to be able to respond to and deliver against our competitors. If we look at Ireland, we see that the Irish Government funded, backed and sent out a delegation to the Professional Golfers Association golf show in Orlando that was on last week and Ireland’s presence was far greater than Scotland’s.

The view of the sector is that we need to have a bigger presence at such international shows as part of a big Team Scotland approach. That comes at a cost, but it would enable us to be at the races, ahead of the game and right up there with the leaders. As a destination, we have huge appeal and demand, but we have to have a presence. Therefore, I would encourage further commitment to funding to enable additional upweighting and marketing activity at the national level and through the destination communities—likewise in the sector groups. Again, another lady who is championing the outdoor adventure sector is Victoria Brooks of Wild Scotland, who is really promoting that proposition and it would be wrong for me not to nod to other leaders in our industry—people such as Fiona Campbell, Susan Morrison and Rebecca Brooks—who are all very much there to lead and to promote Scotland.

We need more investment. I think that we are probably slipping slightly behind our competitors and we need to get back up and do as much as we can to be ahead of the curve and to be

“The world leader in 21st century tourism”,

which is the underpinning strapline of our outlook 2030 national strategy.

Leon Thompson: We are at a point where destinations are ramping up their marketing and promotion. As people begin to travel again, we are back into a very competitive environment, which was the case as we went into the pandemic.

Scotland does very well through its national tourism organisation—there are very imaginative campaigns, which resonate very well with visitors, whether domestic or international, and we are blessed with great assets that are a wonderful draw for visitors. However, we cannot be complacent. I know that VisitScotland will be well aware that we are competing against new and

emerging destinations as well as established ones. People will have more options for travel this year, so it is important that we have hard-hitting and compelling international marketing campaigns as well as campaigns that resonate strongly with the domestic market.

This year, we have as our theme the year of Scotland's stories; there are some great ways that that can be exposed and exploited and I am sure that that is already happening. We also have the Unboxed programme, which will deliver some great events, including some that are taking place right across Scotland.

On the issue of the comparison of budgets, we would always wish that there was more money to market and promote Scotland and we are facing increased competition.

Jamie Halcro Johnston: Looking at those headline figures, I see that Ireland is spending five times the amount on the tourism sector, which I can imagine, even with all our assets and the like, puts us at some disadvantage.

10:15

I also have a quick question about the rural side of things. We have talked about the impact on labour markets and the like, but one issue that has been raised is that, if in the next few years we have to rely slightly more on the domestic UK and Scottish market, we will have to remember that domestic visitors are perhaps more price sensitive than international travellers. How will the fact that some parts of Scotland—certainly in the Highlands and Islands—are harder to get to impact on encouraging domestic tourists to visit all the parts of Scotland that we know and love?

On a more focused rural matter, one of the biggest issues in the tourism sector is the introduction of short-term lets licensing, and it will have a lot of impact on guest houses and bed and breakfasts, which the move might not have been intended to cover. Can I get your thoughts on that? Perhaps I can start with Leon Thompson, as he is on screen at the moment.

Leon Thompson: You are absolutely right to highlight cost as a major issue. Businesses are looking at how they can manage their own costs and try to keep costs down for their customers, who are facing increases in inflation, rising utility costs and costs associated with the increase in national insurance. People will therefore be looking for value-for-money holidays, breaks and destinations, which I think Scotland can offer. However, we need to be able to talk up the advantages of coming here and the great things that people can do.

On the issue of transport, which you mentioned, there are issues for travellers, with ferry costs, in particular, proving to be off-putting to those who want to get to island destinations. Some work probably needs to be carried out on how that can be made more competitive for visitors who are trying to get to our more rural destinations. As costs increase, though, the challenge of promoting Scotland as a competitive destination while at the same time offering a high level of service and experience is probably going to have to be faced right across the country.

As for short-term lets licensing, UK Hospitality in Scotland took a slightly different position from our colleagues in the short-term let market. As far as my members were concerned, there was a real desire to have a level playing field between accommodation providers, and the growth of short-term lets in rural and urban settings was putting hotels at a competitive disadvantage. We believe that a licensing scheme will address some of that.

There were also issues with regard to the provision of affordable accommodation. You will be well aware of such challenges in rural settings, but the situation also applies to our cities, with the impact being felt by my members who are already struggling to recruit staff because people cannot find accommodation and are not able to live nearby. That is a major challenge.

We therefore take a different view of the importance of short-term lets legislation, and we believe that we have arrived at a position that can benefit all accommodation providers. I know that the short-term lets stakeholder working group is meeting today to look at guidance for businesses and to streamline the process for them as much as possible.

Marc Crothall: With regard to transport and Leon Thompson's point about ferry prices, I think that it is important that we have ferries that can get from A to B frequently and consistently. It has been well documented that Caledonian MacBrayne has faced challenges with a fleet that is in disrepair most of the time, and the uncertainty over whether boats will run has caused concern for many in the islands community.

We need to be able to optimise the trips that can carry the demand into the islands, so we need to consider the whole transport infrastructure—not just on sea. Infrastructure is critical, and it is good to see that Scotland's Railway is looking at tourism as a main driver of opportunity.

On the point about short-term lets, the STA's position had to be neutral because of the differing views of our membership. However—I go back to my earlier point—we can stand together on having a means to be able to support a clear, concise and

equitable process of collection of the licence and on not having a cumbersome and costly set-up through the local authorities, which will find it challenging to collect that licence.

I know that, in the industry, organisations such as the Association of Scotland's Self Caterers and the Bed and Breakfast Association are up for supporting local authorities to help keep those costs to a minimum and for ensuring that an approved licensing scheme is in place and will go through.

There is a way to work in partnership, but it is concerning that we could have 32 variations on a theme and additional costs because of underresourcing in some local authority areas that could administer the programme. Highland Council can be one of the first big movers—there are many properties to consider there. I urge everybody to work with the industry bodies that can support a smooth process and keep costs to a minimum.

Fiona Hyslop (Linlithgow) (SNP): I point out that Ireland has received €920 million from the EU in Brexit compensation, which gives flexibility.

However, I want to talk about the domestic budget. For the sake of brevity, I will ask Marc Crothall, who said that VisitScotland's budget has been protected, about that issue. I want to ask about the work of the Scottish tourism emergency response group. We were disappointed to see that the phase 2 funding for the tourism recovery programme was not in the budget. However, the Cabinet Secretary for Finance and the Economy said that

“the door is not closed”

on phase 2 funding and that she is “working with VisitScotland”. She referred to

“£25 million of resource and £24 million of capital”.—
[*Official Report, Economy and Fair Work Committee*, 19 January 2022; c 5-6.]

How hopeful are you that you will get the in-year funding for that programme? Do you recognise those levels of funding? What are the key priorities? Bearing in mind what we have heard about when we are likely to get a pick-up and a recovery, when would it be best to spend that money, particularly on international marketing? I know that you have been involved in the recovery group, so what are the views of the Scottish Tourism Alliance?

If we have time, I will also ask Leon Thompson about the timing.

Marc Crothall: I am well aware of Kate Forbes's response to the committee. We continue to have a dialogue with STERG. In its entirety, the suite of recommendations is very costly, although it is difficult to put a price tag on it.

As a country, we obviously want to move forward with the net zero agenda; that work needs to continue. I referred to the importance of maintaining initiatives such as the observatory programme, which need funding to be able to continue. It would be wrong for funding to come to a blunt stop at the end of this year.

International marketing is critical, and the window for it is March. Money needs to come forward quickly in order to drive the pipeline. A group of tour operators were protected with targeted grant support to see them through the pandemic, and their employees were on furlough. That group of businesses is the glue that will stick much of that together, in terms of acquisition, by building a pipeline for 2023. Those businesses do not now have a furlough scheme to fall back on, so their human capital needs to be protected and they need to be able to get out there and market. In relation to a competitive market, we have to be able to get to that point quickly for the March window.

The tour operator group has had, and continues to have, good dialogue with Ivan McKee, the Minister for Business, Trade, Tourism and Enterprise, but Ms Forbes is well aware of the need for funding.

The other priority relates to the workforce. If we tackle those two priorities in the first instance and put the emphasis on them through funding, we have a chance. However, if we miss the March window, we could be on the back foot for 2023 and beyond, which would be a great shame.

Fiona Hyslop: Will Leon Thompson talk briefly about that window and the desirable timeframe if additional funding can be found for international marketing?

Leon Thompson: I agree with Marc Crothall that time is of the essence. March is the window. We need to have promotions running and events taking place in order to attract international visitors. We need to start attracting those visitors from that point, because people are making their holiday plans right now and we need to catch them.

Colin Smyth (South Scotland) (Lab): Politicians are very good at not answering the question, but you guys have managed to do something different by answering my question before I have asked it. What additional support for the sector should the Scottish Government be looking at next? I will give you a chance to briefly highlight any issues that you have not covered, so that we do not duplicate what has already been said.

I have a second question for each witness. You have made the point a number of times that some areas, especially city centres, have been hit

hardest during the pandemic, and that some non-traditional tourism destinations in rural areas with fragile economies have had a boost due to staycations. Your emphasis seems to be on getting people back to places where they used to go. However, if we are serious about building an inclusive economy, surely there is an argument for trying to keep visitors in non-traditional tourism areas. Some of those areas have a very good offer but have simply not had visitors in those numbers in the past, for purely historical reasons rather than because of what they offered. Is there an untapped opportunity to grow the sector, rather than simply going back to what we used to do?

Marc Crothall: I chaired the steering group for “Scotland Outlook 2030”, which was launched on 4 March 2020, and the First Minister stood with us on stage to launch that strategy. As well as the Government and agencies, 3,500 industry colleagues were involved in building the strategy, which emphasises how to spread tourism across Scotland and share the wealth. That requires infrastructure investment and working with communities to make sure that their offering is absolutely right.

During Covid, we benefited from many Scots exploring parts of Scotland that they never knew existed. I hope that they will be telling their stories in this year of stories to their friends and colleagues elsewhere. It is important to have the infrastructure in situ to make sure that it is easy to get to places, that people can transact online and that there are no blips in the supply chain.

You asked about what else can be done. I should have touched on grant support earlier, and I have raised that point a few times on calls with colleagues and officials. It is all about being flexible as we recover from Covid. Industry, the Government and agencies need to work in partnership to get through this together, and we have to be flexible.

The grant funding that has been made available to businesses, such as the destination and sector marketing fund, has been hugely welcomed. However, there has been a pause and disruption over the winter period, but moneys that have been awarded need to be spent by 31 March, in line with budgetary compliance. There is probably a lot of money in the system that will be committed or spent by 31 March. No doubt this is above my pay grade and yours, but, with a bit of flexibility, we could say to the auditors, “Look, we would get more return on investment on this money and it would be better spent if it could be rolled over into the next fiscal year, so we don’t have to try to concentrate everything into what is now only a matter of weeks.” I know that many colleagues in the industry face a challenge in being able to deliver the activity in the timeframe.

I am sure that, if VisitScotland had anything left over in its budget, it would rather be more flexible on spend and allow the sector to recover in a strategic and timely way, so that it gets the best bang for the investments.

Colin Smyth: Thank you for that well-made point. I am sure that the committee will pick that up.

I will give Stephen Montgomery and Leon Thompson a chance to give us any brief final asks. How can we help the hospitality sector to live with Covid, to coin a phrase? It is likely to be with us in some form for some time to come.

I had a very good family meal at Stephen Montgomery’s hotel in Lockerbie on boxing day. I was struck by your point that you had not gone ahead with your usual Christmas day opening because you were uncertain as to where the Government was going with restrictions, and you did not want to have to cancel everything at the last minute.

10:30

Is there anything that the Government needs to do regarding a future Covid framework that would give the hospitality sector a bit more certainty in respect of any response that we might have to take to the pandemic? Perhaps Stephen Montgomery can start, and then Leon Thompson can address the same point.

Stephen Montgomery: Thank you very much—I am glad that you enjoyed your boxing day.

I have two points to make. First, we need proper consultation—you cannot simply flick a switch and expect us to be able to adapt to change. Although hospitality is a diverse sector, we cannot make changes overnight. Planning, preparation and execution are the key to any success, and we cannot have execution with everybody fumbling around trying to plan and prepare.

We live in a lovely part of Scotland, down in Dumfries and Galloway, but we are always the forgotten part. If you take the main route—the A75—to Stranraer on the way to Cairnryan, going through to Europe, you will see the state of the road. I am digressing a wee bit, but we need to look at connectivity and how we get to places in order to drive people into Dumfries and Galloway. We are lucky that we now have—we hope—a national park coming to our area, but dualling the A75 will be key to driving people into Dumfries and Galloway.

As we move forward, as Marc Crothall said, flexible support is key, but I go back to the same three things: planning, preparation and execution. They give us a proper framework, but we also need more consultation with the sector.

Colin Smyth: Perhaps Leon Thompson can comment on the future framework.

Leon Thompson: Consultation, and a strong partnership between the sector and Government, will be key as we move forward. With regard to the framework, we need the Government to display more trust in hospitality to do the right thing and to keep our workforce and customers safe. Time and again, businesses have shown that they will go beyond the baseline measures that are in place in order to restore consumer confidence and ensure that everybody enjoys themselves safely, in a safe environment. That element of trust needs to be built in somewhere in the framework.

On the point about flexibility, we do not know what lies ahead of us, so we need a framework that can adapt and which can, ideally, ensure that businesses can stay open and trade as fully as possible.

The Convener: I thank the three witnesses for their contributions to the session, which are very much appreciated.

10:32

Meeting suspended.

10:37

On resuming—

The Convener: I welcome our second panel, who are both from VisitScotland. Rob Dickson is the director of industry and destination development, and Vicki Miller is the director of marketing and digital.

Again, I ask members and witnesses to keep their questions and answers concise.

Thank you for joining us this morning. I will ask first about VisitScotland's budget. We took evidence from VisitScotland in the lead-up to our budget discussions with the Government, and you highlighted the difference in grant-in-aid allocation. There has been an understandable decrease in 2022-23, but that has left a gap in relation to what you expected from the grant-in-aid allocation.

How is VisitScotland preparing to manage the budget for the coming year, and what challenges is it facing? I understand that the Scottish Government has secured the on-going budget, but there are issues with the budget that is raised from marketing. Rob, would you like to respond to that first question?

Rob Dickson (VisitScotland): Yes, I am quite happy to start. Good morning, everyone. Thanks for the opportunity to talk to you.

The VisitScotland budget, like the budgets of many other national agencies, has seen some

very unusual changes because of how the grant funding has played through for distribution. Perhaps a fair comparison is between where we were pre-Covid and where we will be from April this year.

In headline terms, our budget is returning to pre-Covid levels. That presents some challenges for us because, of course, we are still trying to support the tourism sector through recovery and the elements of what we need to do to ensure that that recovery is successful are fundamentally different from pre-Covid times. That said, we will return to more of our core activity—the support that we provide for the tourism sector, particularly individual businesses and destination management organisations and sectors—in that effort to support recovery.

That is an opportunity for us to prioritise deploying our resources to focus more on outlook 2030. For the past two years, in respect of responding—quite rightly—to the challenges presented by Covid, much of the resource in VisitScotland has been deployed to distributing grants. That is not a core business activity for VisitScotland, but it has been an essential activity over the past two years. It continues to date, but we are optimistic that, in 2022-23, we will have the opportunity to return more to our core activity—but with an emphasis on supporting recovery—in heading towards outlook 2030. Vicki Miller might want to pick up on the marketing point.

The Convener: Okay. Could you maybe also talk about replacing the self-generated income, which I understand was £6 million in 2019-20? That would usually sit at around £14 million. Do you have expectations about when that budget is likely to recover?

Rob Dickson: That is probably an area for me to pick up on. The two areas that predominantly provide that income are our iCentres—our tourist information centres—and our quality assurance scheme. The income levels defray the costs that we incur from providing those services.

In the past two years, the income has been much reduced, inevitably, but so have the costs, because—as I outlined—much of our resource has been deployed in grant distribution. As we move forward through 2022, we will need to balance the ability to raise the income required to continue to defray the costs with utilising the grant that we get effectively.

In the course of 2022-23, I think that both our quality assurance scheme and our iCentres will move into a more normal way of operating, and we expect the income levels to begin to rise. It is unlikely that they will return to pre-Covid levels in the course of 2022-23; that might take another year or perhaps even two. However, we need to

manage the costs of providing those services in a way that ensures that we balance the books at the end of the year.

That is always the approach that is taken—it will just require a little bit more care in the next 12 to 24 months to make sure that the balance between the grant in aid that is available and the income that we are able to generate is taken into account effectively.

The Convener: That is helpful. Thank you.

Colin Smyth: Let me build on that point. In the previous evidence session, Marc Crothall from the STA made the point that it would help businesses—and probably VisitScotland—if there was flexibility around when grants and, indeed, budgets had to be spent. There is an expectation that spending has to be done by 31 March. Do you have any comments on that? Would such flexibility help VisitScotland? Would it help those businesses that you have been providing grant funding to as we head towards the end of that financial year?

I am not sure who wants to grab that one with both hands. I will leave it to the two of you to decide.

Vicki Miller (VisitScotland): I will let Rob Dickson answer that one, and I will come back in to comment on marketing later.

Rob Dickson: Thank you for the question, Colin. It is good to see you again.

It is well understood in the public sector that 31 March presents a challenge every year in respect of the utilisation of funds. This year, it is particularly challenging. It is probably the most challenging year that I have experienced in my career, because of the impact of omicron on what would always be a particular focus in the year—the period over December and January.

The financial rules are the financial rules, and expenditure has to be concluded by 31 March. Were flexibility to be available, of course, it would be welcome, but I well understand that the rules that are in place across the whole UK are there for reasons of prudent management of public finances. We will need to balance the requirements to match those rules with our ability to spend effectively in the next eight weeks. Crucially, we need to help and support businesses to spend in the next eight weeks using the funding that is available to them. We are very focused on that across the funds that we are managing and operating.

10:45

Colin Smyth: Finally, as Marc Crothall and others have pointed out, although a number of

areas have been hit particularly hard by the pandemic, with visitor numbers and hospitality in city centres highlighted, non-traditional tourism destinations in some rural areas have seen a boost from staycations. One might argue that these are fragile economies, with all their economic indicators probably lagging behind cities, and, with all the stress seemingly on getting people back to where they used to go, surely it can be argued that there are non-traditional tourism areas with huge potential that, for purely historical reasons, have not had the same visitor numbers as other areas have perhaps had. Rob Dickson will know exactly what areas I am talking about. Perhaps the strategy should be about ensuring that people stay in or come back to those non-traditional areas, given their real potential for growing the overall tourism market in Scotland.

I will start with Rob Dickson, as he is on my screen, but I am sure that Vicki Miller will want to talk about how we market those areas.

Vicki Miller: I would be happy to do so.

Rob Dickson: I agree entirely with your comments and with Marc Crothall's response to your earlier question. We will not grow tourism in Scotland if we continue to focus on the areas that we have always focused on. Setting aside the impacts of the pandemic for the moment, I would say that the crucial challenge of "Scotland Outlook 2030", which is Scotland's tourism strategy for this decade, is to spread tourism more widely and to fulfil the unfulfilled potential of many parts of Scotland. You are right to highlight that as one of the unforeseen benefits of Covid, particularly in rural locations, but we need not only to maximise the opportunity to sustain visitor numbers in those areas but to pursue the opportunity presented by other less well-visited parts of Scotland that have the potential to host more visitors and to boost their local economy through the great benefit that tourism brings.

In the short term, however, that objective has to be set against recovery, and I do not wish anyone to think that VisitScotland is not focused on the need to support recovery in the cities as well as in many other parts of Scotland. We have to transition from our response to Covid to recovery from Covid and onward to our ambition in the "Scotland Outlook 2030" strategy. You made a point about the potential in rural areas, in particular, and that is part of what we need to focus on in that strategy and is certainly at the forefront of our thinking.

Vicki Miller: Good morning, everyone, and thank you for the question.

I absolutely agree with Rob Dickson. The promotion of seasonal and regional spread has always been a key focus of our marketing strategy

to ensure that we are adding value, spreading visitors and promoting the hidden gems. That, with a responsible tourism focus in mind, is a big part of our recovery approach.

In order to do that and see recovery in the short term, though, we will have to be agile and use the data and insight that we are getting—not just from the industry in Scotland but from what we ourselves are seeing in consumer behaviour—to get to those first returning visitors and direct them to the experiences that they are looking for. At the same time, we are investing strategically for the medium to long term in order to build awareness of Scotland and of some of those unique but less well-known experiences in less well-known areas. That will take time and, I guess, investment over the long term.

With regard to your question about marketing, January to March is always an optimal window, because that is when people are planning their holidays, but the fact is that we need a year-round approach to marketing. What VisitScotland and I believe we need to do—and, indeed, what we have done over the course of the pandemic—is keep Scotland present in the minds of our consumers in all of our key markets, even with the “Dream now, travel later” message. We need those first returning visitors to be thinking about Scotland. That will be very important not just in the short term, but to our strategic approach in the medium to long term.

What will also be important, from a marketing perspective, is not only on-going investment in marketing but having international connectivity. Getting back to the frequency of routes that we had in 2019 will be key as we continue to invest in the product.

Colin Smyth: That is me, convener. I look forward to a repeat sometime soon of the very good campaign to sell Scotland that VisitScotland had a couple of years ago.

Gordon MacDonald: Obviously, we need the tourism industry to bounce back as quickly as possible, given its importance to the Scottish economy. To continue the discussion about labour shortages, hotel occupancy levels are low partly because many hotels do not have the staff to service all their rooms. Many restaurants are closed at lunch time or a couple of days a week because of staff shortages. To paraphrase Rob Dickson’s comment, we cannot grow tourism in Scotland if there is a labour shortage. How do we address the 40,000 vacancies that we have in hospitality when we are at full employment in Scotland?

Rob Dickson: Thank you for the question. The previous panel covered that in some detail and were very accurate in what they said. There were

challenges in the labour market pre-Covid, and the pandemic and the slightly longer period post-Brexit have accentuated those challenges. From VisitScotland’s perspective, the critical point is that we make sure, as best we can, that the national programmes are fit for the tourism sector. Skills Development Scotland leads in the area of Scotland’s labour market challenges. Through the STERG response, we have sought to make sure that the tourism sector is well understood by Skills Development Scotland and that the programmes that it has in place are as effective—[Inaudible.] It is fortunate that some of those programmes have been funded through STERG in the past 12 to 18 months.

The forward look on that is very challenging. National Records of Scotland’s prognosis for Scotland’s population, which was published in mid-January, spells out very clearly that there is a need for a sustained and long-term effort on that. We are not going to resolve the labour challenges in a matter of weeks or months. We will have to take a much more systematic view about career opportunities—[Inaudible.]—and businesses need to understand where labour is essential, where digital efficiency plays a part and where overall business efficiency plays a part. We need to make sure that the people we employ enjoy their work, are well rewarded through the fair work agenda and see their future in tourism as a challenging and enjoyable one that gives them a successful career across all parts of Scotland.

Tourism has to compete with other sectors in Scotland and beyond to attract people, and that is a significant challenge for us. I would not wish to shy away from the long-term challenge that is presented and the demographic challenges that we face that are to do with the working-age population in Scotland generally. In some parts of Scotland, particularly rural parts, those are extreme challenges. That will hinder economic development in general, but tourism—[Inaudible.] We need a well co-ordinated long-term public sector response that ensures that, year-on-year, we are making the difference that needs to be made for our working-age population.

Gordon MacDonald: Given the demographic challenges that you have highlighted, would you be supportive of the calls for either a hospitality visa or devolving the immigration system?

Rob Dickson: Those are not issues that VisitScotland is focused on; they are parts of the wider picture. There are a wide range of issues that can play a part, and those things may be part of the resolution to the challenges, but it is crucial that we understand how those elements complement one another and what part they can play. If they are the right things to do, and if the industry believes that, I am sure that VisitScotland

would be supportive of them. However, we need to be certain that long-term solutions are in play and that they can play a valuable part in what we do.

Jamie Halcro Johnston: Rob Dickson, you mentioned that budgets are back to pre-pandemic levels. In 2018-19, the budget was £50 million and in 2019-20 it was nearly £60 million, but it is now down to £49 million. That looks like a reduction and it will also be cut this year. In comparison, one of our competitor nations, Ireland, has increased its spending by €67 million, which is greater than the total budget of VisitScotland. How does that impact on your ability to promote and support tourism across the country and internationally?

Vicki Miller: Rob, do you want me to pick this one up?

Rob Dickson: Yes.

Vicki Miller: There will be an element of ring-fenced budget in the figures that you mention, which is possibly why you are seeing that discrepancy.

In relation to marketing, there is no doubt that Ireland has significant budgets and is a competitor. It offers a similar outdoor product, but I would argue that Scotland has a better proposition. That means that we need to be smarter with our targeting and that we need to work collaboratively as team Scotland.

Our activity should not be directed only to the consumer; we also need to work internationally if we want to grow our share of outbound tourism. There is a huge opportunity there, because Scotland's share of outbound tourism in some key markets is less than 1 per cent; growing that by even a small amount would make a significant difference to the Scottish economy. Consumer marketing and smart targeting is one way that we can get to the audiences that are the right fit for Scotland and are in the market to travel now. That is particularly important in the short term.

VisitScotland has put in place market specialist teams that work closely with people in the international travel trade to educate them on the Scottish product and to get them selling Scotland. For example, this year we will undertake 40 virtual events—in normal times those would be in-market events—face to face with the travel trade, where we will be connecting businesses with tour operators to get them selling Scotland and increasing the number of Scotland programmes that are for sale through travel intermediaries.

We have been involved in delivering more than 5,000 training sessions with travel agents across the globe. That business-to-business strategy is important. We have an in-house public relations team that is split into markets and market specialists. Through earned opportunities, we can

capitalise on events and film and television in our key markets, and through working as team Scotland with Scottish Development International, we are activating our global networks to do a good advocacy job for us.

It is about being smart with the resources that we have and directly targeting the consumer with our marketing. It is also about the expert resource that we have invested in, so that we can punch above our weight and extend our reach. There is no doubt that investing in more marketing to grow our share of global outbound travel would make a huge difference, particularly because of the share that we have at the moment and the low awareness that we have in some markets.

Jamie Halcro Johnston: I imagine that our competitors will be saying that they are doing innovative and new things as well. Although I appreciate and welcome that, there is a big discrepancy in the budgets. Rob Dickson talked about investment in rural areas and Vicki Miller mentioned looking at areas where we could increase tourism while promoting responsible tourism. There is huge pressure in some of our most remote and rural areas in relation to tourism infrastructure, which will not be helped by councils' budgets being cut, because they might otherwise have put in some of that infrastructure, such as public toilets and better roads.

How do we to increase tourism to those areas, if that is what we are looking to do, and ensure that that infrastructure is in place? It is a big issue in some of the islands, on Skye and around the north coast 500.

11:00

Rob Dickson: In recent years, VisitScotland has responded to that exact pressure by utilising the Government funds in the rural tourism infrastructure fund. There have now been four years of rural tourism infrastructure funding. In the course of the pandemic, we have been able to support councils in developing strategic infrastructure plans, which we hope will develop a more solid pipeline for applications to the rural tourism infrastructure fund.

We genuinely believe that that fund, given its scope and the way that it operates, is an effective response to the challenges that you highlight. Crucially, it allows councils to work with the private sector, communities and other interest groups to provide the infrastructure to both deal with the pressure points and potentially increase tourism in certain areas that need it most. Continuing to support the rural tourism infrastructure fund and ensuring that we provide behind-the-scenes support to councils and businesses on how the fund can best be accessed is crucial in responding to the clear pressures that you identify.

Maggie Chapman: Good morning Rob and Vicki; thank you for joining us. We heard from the earlier panel about the entrepreneurship, diversification and innovation that is happening across tourism to create what will probably look like a different industry post Covid and post recovery.

International experts say that a full recovery will not happen for at least another two years. We heard earlier about the tension between trying to go back to what we had—because we knew that—and ensuring that we make the most of seasonal and regional spread, which you have commented on.

There is something in this area that is to do with long-term resilience and sustainability. Much focus is placed on long-haul flights and bringing more people into Scotland, but we are likely to see rising fuel and air travel costs, and people might move away from air travel because of the climate emergency.

Do we need to do particular work to make tourism more sustainable in all senses, with regard to how people arrive here; how people with lower incomes, especially families, can afford to take part in activities; how accessible destinations are; different ownership models; and how costs can be met from smaller spends, but more of them? Can you say a little bit about the longer-term sustainability that we need to think of, given both the changes that we know will happen in aviation and the diversification and entrepreneurship that we have heard about?

Rob Dickson: On the point about international tourism and aviation, VisitScotland's focus on responsible tourism is growing by the day and by the week. We recognise the challenge that the transition to net zero presents to the tourism sector in Scotland. It is clear—I think that Marc Crothall touched on this in the previous conversation—that businesses are hugely challenged by the competing pressures of recovery from Covid and addressing the net zero agenda.

It follows that VisitScotland must get the short and medium-term priorities in a proper sequence in order to best support business. The work that was done through STERG and the way that the funding was provided through it, which balanced business support requirements against the destination net zero programme, was the right way to go about it.

We need to ensure that businesses are as effective and competitive as they can be, in the true business sense, and that their digital offer, particularly to international but also domestic visitors, is as strong as possible. That is a huge focus of the business support that we provide.

However, we also need to provide the best support that we can in respect of the transition to net zero. What does that mean for businesses that are building based or for those that are more outdoor focused?

Transport is also a common theme, and the challenge in Scotland in that respect is how we move people around the country and how public transport can serve as best it can the demands of tourists as well as domestic travellers. Those issues are significant, and they were recognised as such two years ago in pre-Covid times when "Scotland Outlook 2030"—the strategic vision for tourism in Scotland—was launched. Over the past two years, we have had, rightly, to focus on the Covid response, but we now need to pick up and reprioritise the focus on net zero to ensure that that transition takes place.

Arguably, we will need to hit the 2030 target not in the 10 years that we had hoped for but in the eight years that we have left, and I therefore re-emphasise my earlier point that the response needs to move to recovery, and the recovery needs to look to the 2030 focus, with the destination net zero programme coming to the fore in the business support that we provide. However, I make it clear that we already doing that through, for example, the STERG work that is providing electric vehicle charging grants to more rural businesses and certification for businesses that attain their energy consumption and climate change targets. Those sorts of very practical tools will be helpful in the years ahead.

Maggie Chapman: Do you have anything to add, Vicki?

Vicki Miller: I think that we have already touched on this, but we will absolutely need a balance of domestic and international visitors if we are to have a sustainable recovery and achieve our seasonal and regional spread objectives. Although the UK market is really important for all-year-round visitation, it is more of a short-break market, and there is therefore an opportunity to encourage people from the UK to take longer holidays in Scotland. We will be in a very good place in that respect post pandemic, because we have exactly what the family market that you have mentioned is looking for, with lots of fresh air, outdoor activities and a connection with nature. This is about working with the sectors and looking at how agile we are in adapting the offer to address the different insight that we are getting from the different audiences that want to travel.

We are seeing younger visitors becoming more interested in Scotland as a place where they can enjoy more adrenaline-fuelled activities. We have a really strong outdoor activity sector, and those operators have been leading the way in offering new experiences. Our visitors are looking for those

kinds of unique experiences, and keeping our focus on, as Rob Dickson has said, supporting the industry and adapting its offer to and aligning it with the consumer trend will be really important.

International visitors made up 20 per cent of the volume pre-pandemic, but accounted for 44 per cent of the actual spend. American visitors spent four times more than domestic visitors, whereas European visitors spent double. Core markets such as France and Germany are really important for regional and seasonal spread and, moreover, because people will come back to Scotland more than once, we have a huge opportunity to get those visitors to visit places that they have never been to and to inspire them to travel further and do more.

With the American and other long-haul markets, we are probably talking more about first-time visitors, but there is still an opportunity to work with tour operators and travel intermediaries at an international level to show the other side of Scotland and the things that are off the beaten track and to help them build product itineraries with the industry in Scotland in order to promote these lesser-known areas. Again, we have seen similar consumer interest in the North American market in getting off the beaten track, being outdoors and having a focus on wellbeing, and we are very well placed to pivot and focus our offer to take advantage of those consumer trends. It is all about capitalising on data and insight.

Colin Beattie: I know that members have already touched on elements of this, but I want to explore competitiveness. Every destination across the globe has been impacted by Covid-19, and they are all trying to build back their businesses. Indeed, they are investing heavily in that.

Ireland has been highlighted as spending €288.5 million on tourism this year. Of course, Ireland benefits from the Brexit compensation fund, which gives it €920 million. That is a nice sum of money to be able to work with. We certainly do not have access to anything like that.

Being competitive is of vital importance to the economy. If we are not competitive, our industries will go down, the economy will shrink and we will all be poorer, so it is incredibly important. If we just measure it in money, it seems quite difficult for us to be competitive. Do we measure competitiveness only in money, or are there other clever things that we can do to compensate for the fact that we do not have the sort of cash that other countries are pouring into tourism?

Rob Dickson: Vicki Miller just touched on the point about the experience in Scotland. I do not think that anyone on the committee or at VisitScotland would doubt that we have a product that can stand comparison with any other country

in the world. The vision in “Scotland Outlook 2030” to be the world leader in 21st century tourism is a striking and ambitious vision, but it is one that the tourism sector was confident about putting in place back in 2020 and the sector remains confident, despite Covid, that it can aspire to that position.

Our competitiveness has to be based on two critical things: the first is the experience that visitors have in Scotland, and that starts from the moment they—[Inaudible.]—through to the businesses that host them, the experiences that they have, whether they are outdoor experiences or visitor attractions or whatever they might be, accommodation providers and so on.

The business support function that VisitScotland provides therefore has to focus on constantly improving the efficiency and consequently the financial competitiveness of those businesses as well as the quality of the experience. The staples in VisitScotland’s work over a long number of years have been about the quality of the experience and the efficiency of the business. Those are the two routes that lead most effectively to competitiveness.

I responded to the previous question about the challenges of net zero and of course that also comes to the fore—[Inaudible.]—our competitiveness, in terms of what the consumer is looking for and what they experience.

In VisitScotland, we need to make sure that we are gathering the right data to respond to those pressures in a post-Covid era as well as we were in the pre-Covid era.

Colin Beattie: You are basically talking about word-of-mouth advertising, which is effective, but if other countries are hard selling their products with more money than we have, how do we compensate for that? Once we get people here, they will have the experience and we hope that they will then go out and spread the word, but we have to get the people here first. The more money you have, the better chance you have to spread that word. Do we have enough money and resources to be able to do that in our target markets?

Vicki Miller: If I can put it in this way, for every £1 that we invest in marketing, we deliver £8 back to the Scottish economy, so the more we invest, the greater the return, and that can be very immediate because our marketing works at two levels. It works at growing the awareness and the intent, which is absolutely needed to drive inbound tourism into Scotland, but it is also about driving immediacy in terms of bookings where they are needed most in the industry, so you get an immediate return on that investment.

Where I think that we have been very smart is that we have a team Scotland approach. We

capitalise on our global networks and our ancestral networks; if you look at the SDI and our GlobalScot network, you see that we do a lot internationally by coming together and presenting Scotland on the global stage. Events such as Scotland week in New York are a great example of where we can do that. We can create a lot of noise over a short period of time by being present in the market with advertising at the time, running networking events and using those Scots who are based outwith Scotland to do a job for us.

11:15

We need to be smart and use those global networks. We are fortunate that VisitScotland has built up a significant social media reach, which is greater than any other UK nation's reach; we are probably up there with Australia in terms of the reach that we achieve every day through our social media channels. That advocacy should not be underestimated. People are constantly sharing their holiday memories of how great their Scottish experience was through those channels.

The issue is also about capitalising on the global events that we host in Scotland, which goes back to the point that was made earlier that having events in Scotland is critical to being able to maximise our global media coverage. Working with the likes of the Edinburgh international film festival and all the other events that take place in Scotland gives us a unique opportunity to harness those.

Going back to your original question, I say that, yes, we can give a guaranteed return on investment, so investing in marketing can make a significant difference.

Colin Beattie: I recall from previous evidence sessions on hospitality and tourism that Ireland receives a multiple of the number of visitors that Scotland does. That seems to indicate that it is much more successful at attracting tourists. Could you comment on that?

Vicki Miller: Ireland's numbers are similar to ours, but I agree that the number of international tourists is slightly higher. It benefits from having those ancestral connections, particularly in North America. Ireland has a bigger share of the outbound market from North America than we do.

Colin Beattie: We should have a huge reach in America, too. I remember standing on Ellis Island pressing the buttons for where people of Scottish ancestry were, and there were more than 20 million people scattered across America, particularly on the eastern seaboard. Surely we should be capitalising on that.

Vicki Miller: Absolutely. You will see a more ambitious programme of activity in the market and

across the various agencies, the Scottish Government, SDI and us in relation to this year's Scotland week programme to raise that profile and take advantage of its opportunity, given that it is likely to be an in-person event.

Colin Beattie: I have one last question. How do you measure competitiveness against other countries?

Vicki Miller: We have a variety of insight. We are working towards a tourism observatory that will be able to analyse a variety of real-time information and studies that are done with visitors directly within market. Some of that work does a benchmarking job in relation to the quality of the visitor experience and the awareness of Scotland.

We have a number of research sources. During the past two years of the pandemic, we have been running two trackers to look at sentiment in the UK market and internationally. Those studies have also delved into holiday-taking habits and propensity to visit Scotland. We have those rich sources of information and we have a wealth of real-time information through things such as Google search trends that we can use for benchmarking and to see whether there is any shift in demand for Scotland. We can do that through partnerships that we have with the online travel agencies and other travel intermediaries who with us their data on search and booking demand for Scotland and how it compares with other destinations.

One of the roles of the observatory will be to look at how we can pull all that together and present it in a visual way that is useful to agencies and to industry and helps them plan and see trends in visitor behaviour and opportunities by market. There are a number of different ways that we can benchmark.

The Convener: Ireland has been talked about this morning, and it might be interesting for the committee to find out what percentage of Ireland's gross domestic product comes from tourism. I suspect that the percentage is higher than it is in Scotland, but we can follow that up with the Scottish Parliament information centre.

Michelle Thomson: Good morning. I am aware of time, so I have just a couple of questions. First, with regard to the status of phase 1 projects, I am aware that two are at amber—destination net zero and the Scottish tourism observatory. Before I go on to another question, I want to get a sense of the current status and rationale and any further thoughts about those projects. That question goes to whoever is the most appropriate person to answer.

Rob Dickson: I am happy to pick up on those. It is fair to say that they have both been impacted by what happened in and around December, because

of omicron, so they were placed at amber because of slight delays in the work. Delivery of those projects is well on track now, and destination net zero activity was launched just yesterday, with further to follow this week. We will deliver on those programmes. I touched on the EV charging work earlier in the committee's conversations. It is great to see that opportunity for businesses to apply for grants and get support in installing EV charging on their properties. Likewise, the energy certification scheme is also now up and running.

The observatory has been more challenging. It is largely capital expenditure. We have had to plan the work on that in quite short timescales, and that is now under way. Companies have been appointed through procurement and, as Vicki indicated earlier, that piece of work will be ongoing for us beyond the end of 31 March. The observatory will be developed in the coming months—and, I hope, years—so we are putting in place a fundamental building block for our future, not just a programme that will stop and start in the current financial year. I hope that that helps on those two projects.

Michelle Thomson: It certainly does. Does Vicki Miller have anything to add to that?

Vicki Miller: With regard to the observatory, the progress that has been made is particularly around the industry consultation piece, in order to really understand the data and insight that industry is looking for to help inform its planning. An industry panel or steering group has now been set up to guide that project, which will be very helpful in focusing its priorities.

Michelle Thomson: Thank you. Rob mentioned something about capital expenditure, which is the other area that I wanted to ask about. A comment in the minutes of STERG's most recent meeting notes that the investment models have been challenging. You commented on the financial accountability rules and the fact that the Scottish Government cannot offer any flexibility. Is my understanding correct—that that is simply to do with the fact that the Scottish Government, according to the fiscal framework rules by which it is bound, cannot carry forward? In effect, by law, it is not in a position to offer flexibility. If that is correct, are you any further forward with that blocker around structuring investment models? That might follow on from what Rob Dickson was saying about capex.

Rob Dickson: My connection broke in the middle of that but I think that I understood the question. The rules are the rules and they apply right across the UK in relation to 31 March. Therefore, with regard to capital expenditure, it is crucially important to have the plan in place, so that you can utilise the full extent of any 12 months in a financial year to deliver the planned

expenditure. I referred earlier to the rural tourism infrastructure fund, and the work that we have been doing in the past 12 months is precisely to try and make sure that projects are able to start on 1 April, so that they have the full 12 months to spend the capital moneys that are available and people are not developing the projects during the course of that financial year. In all my years of experience in local authorities and other public agencies, that is by far the best way of making sure that we operate effectively within the long established and well understood rules on capital expenditure that you referred to. Does that respond to what you asked? I am sorry that I missed a bit of the middle of the question.

Michelle Thomson: Yes. What you have described is careful management of the limitations on that money, which, after all, cannot be carried forward. I would think that if you were running a business, as I have done, and were unable to carry forward any money—particularly capex, with all the implications that that would have—you would have to do a lot of work just to manage that kind of limitation. That is what I am trying to explore. Is that the case? Have you just got used to the fact that you will have to manage things around that limitation and will expend effort and incur expenditure in doing so?

Rob Dickson: I am not sure whether it is a comment on my career, but I have just got used to the situation and accepted that you have to operate in that way if you are to make best use of the available funds.

Michelle Thomson: Finally, do you want to put anything else on the record in relation to your comment about there being no easy investment solutions? A lot of what we have seen has been exacerbated by the pandemic and, if you like, the flow of funds.

Rob Dickson: The reality for businesses in Scotland, not just those in the tourism sector, is that the pandemic has had a significant impact on their cash reserves, which have been drained, and on their confidence about revenue streams and cash flow and, as a result, their ability to trade and be efficient has been more challenged than it has been in recent years. Indeed, I would go so far as to say that it has perhaps been more challenged than it was when they were dealing with the immediate consequences of the financial crash in 2008.

Trading out of this with confidence will, I think, be the most important thing, which is why the recovery focus over the next 12 to 24 months is so critical. We have to understand not just where businesses are doing well—it is important to be clear that even with last year's truncated season many businesses did well—but where they are being challenged, what support it is best to put in

place, how we can support their marketing efforts and what issues need to be addressed. Some of that will be about investing in their own businesses, and some of it might be about investing in national infrastructure such as public transport, including the ferries that were mentioned earlier. These are all critically important in underpinning the national infrastructure and ensuring the success of businesses in remote and rural locations—and in cities, too, if we are talking about transport. Getting that balance right and understanding what will make the difference to those businesses over the next year or two will be crucial.

Michelle Thomson: Do you have anything to add, Vicki? I know that Rob Dickson and I were focusing on capex and the inability to carry that forward, although I also know that you can carry forward revenue. Is there anything more that you want to say about investment before we move on? I am aware that time is of the essence.

Vicki Miller: As I have said, we need a year-round approach to marketing Scotland, supporting activities and working and collaborating with airlines, particularly on marketing, to restore their confidence that we are building demand for Scotland and helping to maintain the routes. However, that requires a year-round approach and investment in the domestic and international markets.

My team are clearly focused on that, and it is very much a priority for our core budget. As I said earlier, if we have more, there is more that we can do. We can extend the reach of what we are able to do with our core budget.

The Convener: I call Alexander Burnett.

Alexander Burnett: I note my entry in the register of members' interests with regard to tourism.

When we met your chief executive the other day, he explained how you have been able to pivot your budget to focus more on capital expenditure in readiness for the return of tourism, which is obviously good for laying the foundations for long-term recovery. The budget, which is slightly down, is split 50:50 between resource and capital expenditure. I guess that there might be a battle—an amicable one, I am sure—between destination development and marketing, but can you comment on that split? Given that capex has had the lion's share of the budget in the past year or so, should the pendulum have swung more the other way towards marketing?

11:30

Rob Dickson: It might be helpful to provide clarity on the numbers over past years so that a

clear understanding can be obtained of what the level of capital and revenue expenditure has been, given the extent of the changes over the past few years. I joined VisitScotland only in August last year, but I think that, like any public sector organisation, it is challenged with regard to where, at a point in time, it should place most emphasis and what should be the highest priority for the resources that it has available. I have already made it clear that I think that capital investment requires careful long-term consideration, built out over three, five or seven years. I think that the rural tourism infrastructure fund allows us to do that most effectively.

Where capital investment is required in respect of VisitScotland's own operations, you would expect us to be efficient in use of that capital and to invest it effectively, whether in digital and information technology infrastructure, the buildings and other resources that we have throughout Scotland or the iCentres. I think that that is done carefully and effectively.

The revenue investment is much more about the moment and the programmes that we need to run. I think that the recovery piece will drive those priorities in the short term and in the medium term to 2030. Vicki Miller might want to say more about how the position has developed historically. You will appreciate that I am able to look back only to August last year. That is what I have experienced since then.

Vicki Miller: That is correct. On capital investment, a key area of investment for us, as an organisation, has been our digital transformation programme, which has been about building capability so that we can provide advice to industry, and reach consumers, in new ways.

Despite the fact that our focus has been on funds and work such as the rural tourism infrastructure programme, which has meant that we have not been able to accelerate some of the digital transformation activity as quickly as we would have liked, we are in a good place. We had done a lot before the pandemic, and we can now turn our focus back to that. For example, we have onboarded what we call a marketing automation platform, which allows us to tailor content and communications to visitors, based on their interests, in real time on the website and through our email programme. That allows us to make our channels much more efficient and effective in delivering for Scotland. That has been a key focus for the organisation's capital programme over the past few years.

The Convener: Earlier, you answered questions on phase 1 of the recovery programme and progress with that. You will appreciate that there is a second phase of the recovery programme. The committee raised that issue with

the cabinet secretary in relation to next year's budget. The budget for next year does not include committed funding for phase 2. The cabinet secretary indicated that she is supportive of phase 2. Are you having discussions with the Government about where any additional money might come from? Could money be found from in-year budgets, for example? What can we expect when it comes to finding resources to fund phase 2?

Rob, you might want to address that.

Rob Dickson: Yes, I would be happy to address that. I chair STERG. We are constantly having a conversation about how we balance the programme that was set out for year 2 of STERG, which Marc Crothall referred to earlier, against the current position of not having funding for it. It is encouraging that the cabinet secretary has indicated that she is minded to provide resource if that is possible. That might happen in the course of the budget decisions, or it might happen in the course of the financial year. Either way, it is important that we understand what the priorities are at any point in time.

While the assumption, at present, is that no funding will be provided, through the STERG conversations, the national agencies have prioritised their work in relation to that programme. Earlier in the meeting, emphasis was placed on things such as international marketing, labour market shortages and visitor management, and the agencies that make up STERG are committed to making sure that that work is taken forward. Conversations will be held with the Government tomorrow and again next week to consider how that programme might best be delivered.

From my perspective and that of the group, it feels as though it is a fluid situation. I do not doubt the commitment of the Government and all agencies and all local authorities to do the best that they can in response to the challenges that we face, but we all understand that the situation with the public finances is tight and challenging, and that we must prioritise the resources that are available.

I hope that that gives an indication of where we are at this point in time.

The Convener: Yes, that is very helpful.

I thank Rob Dickson and Vicki Miller for speaking to us this morning.

11:34

Meeting continued in private until 13:31.

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