HOUSE OF COMMONS

Northern Ireland Affairs Committee

Oral evidence: Promoting the tourism industry in Northern Ireland through the tax system, HC 577

Thursday 21 January 2016

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Written evidence from witnesses:

Tourism Ireland

Members present: Mr Laurence Robertson (Chair); Mr David Anderson; Danny Kinahan; Nigel Mills; Gavin Robertson

Questions [285-353]

Examination of Witnesses

Witnesses: **Niall** Gibbons, Chief Executive, Tourism Ireland, and **John** McGrillen, Chief Executive, Tourism NI, gave evidence.

Q285 Chair: We will open the public session. Thank you very much for joining us. Mr Gibbons, it is good to see you again after our discussions in Dublin, but it will be good to get you on the record now. Both gentlemen, thank you very much for joining us and thank you for your earlier submissions. Would you like to make any brief opening statements or shall we get straight into questions?

John McGrillen: I have not yet provided you with a statement, but I will give a brief summary of what I have here and I will pass this on to you. Just to confirm, I am John McGrillen and I am chief executive of Tourism NI. We are an arm's length body from the Department of Enterprise, Trade and Investment and essentially we are the tourism development authority for Northern Ireland. I suppose you could brigade our work into three broad areas. Firstly, we have responsibility for industry development, so that is support that we give to businesses within the tourism sector. We are involved in product development, so we support the development of visitor attractions like Titanic Belfast and the Giant's Causeway Visitor Centre. Then we have responsibility for sales and marketing on the island of Ireland and we work closely with Tourism Ireland in terms of supporting the work that they do in the international marketplace.

Tourism is becoming increasingly important to the Northern Ireland economy. Currently it is worth about £751 million; £500 million of that is earnings from out of state or certainly outside of Northern Ireland. In comparison with other export industries in Northern Ireland, we are a significant sector in the export economy. Tourism currently supports about 52,000 jobs, 43,000 of those being directly within the tourist industry and the others as a result of secondary spend that results in job creation. I think two other important factors from my perspective are that it creates employment right across the region. Some other sectors tend to be urban-centric, but tourism allows job creation and economic activity to occur not just in the urban areas, but in the rural areas. In a city such as Belfast, where you have perhaps 35% of the population economically inactive with low skill levels, it is one industry that does create the opportunity to provide an outlet for those people who find themselves in such circumstances, so it has a major and important social role to play as well.

There has been significant growth in the tourism sector in Northern Ireland over the last 10 years. Tourism spend has almost doubled; it has increased by 90%. There is a very significant increase in the revenue generated from out of state, so about 80% of that which is generated comes from outside Northern Ireland. You will be familiar with the infrastructure that has been developed over the last number of years and I will not get into the detail around that. Certainly in terms of a review that Deloitte carried out on behalf of VisitBritain, it is thought that there is the potential to create up to an additional 12,000 jobs in the tourism industry here over the next 10 years and to contribute 7.4% to GDP.

We are in a unique position when one considers the issue of VAT. We do have a border with the Republic of Ireland where VAT is significantly less, and I know others have presented to you on that particular issue so I am not going to get into the detail around it, but in terms of cost competitiveness, I would argue that it does have an impact on our ability to compete with the tourism sector in the Republic. We also have the issue of the euro-sterling differential and when we map out the exchange rate movement versus the numbers of people who are staying here overnight, there is a strong correlation in those figures. Over the last two years we have seen a 20% weakening of the euro against sterling and we have seen an almost similar reduction in the numbers of people not travelling from the south and certainly in those who have been staying overnight. It is probably fair to say that the impact of that has been greatest outside of Belfast. Belfast continues to perform well. It has occupancy levels within the hotel sector of very close to 80%; I think it is about 79% on the basis of the last figures that were produced. That is not replicated outside and therefore the border areas and those that are closer to competitors on the other side of the border are feeling the pinch more than Belfast is.

Q286 Chair: Thank you very much. Perhaps it might be useful, Mr Gibbons, if you tell us very briefly how you work on an all-Ireland basis, but with particular reference to Northern Ireland. I think it would useful to have a brief statement on that, if you don't mind.

Niall Gibbons: Thank you very much, Chairman and members, and thanks for the opportunity to address you today. As you know, my name is Niall Gibbons and I am chief executive of Tourism Ireland. We have already submitted a detailed statement, which I do not propose to go through now, but just to summarise one or two key points.

We were delighted to welcome members of the Committee and Ambassador Chilcott to Dublin recently for a very comprehensive debate on tourism. As members know, we market the island of Ireland and Northern Ireland abroad in 23 different markets around the globe. It is a significant economic driver here in Northern Ireland, accounting for 5.2% to GDP and 43,000 jobs. In Ireland it accounts for 205,000 jobs, and last year—when the figures are finally totted up—we expect to have welcomed 9.3 million visitors to the island of Ireland, of which 1.9 million were into Northern Ireland. We look forward to 2016 with optimism. Exciting developments like the new Gobbins cliff path, Northern Ireland's Year of Food and Drink, screen tourism with "Game of Thrones", which is a great platform on the small screen, and investment in things like Titanic, the Giant's Causeway and the Irish Open gives us an awful lot to shout about in the international marketplace. It is an excellent basis on which to maintain and build further growth. We are determined to maintain the positive emphasis that has been there over the last number of years and we anticipate we will grow business this year, 2016, by 4%, making a record year with 2 million visitors to Northern Ireland.

As you will have heard from industry colleagues from Ireland and Northern Ireland, policy interventions by the Irish Government have played a role, with the reduction of VAT from 13.5% to 9% compared to the 20% here in Northern Ireland, and the zero rating of the air travel tax, or the air passenger duty as we have it here. We look forward to playing our part in delivering the kind of economic benefit that will accrue to Northern Ireland and the level of growth we forecast and a very strong, vibrant tourism sector. I do want to compliment the Tourism Ireland team and the Tourism Northern Ireland team, who work hand in glove to promote this industry around the globe. I am delighted that last year the World Economic Forum in Switzerland ranked us fifth out of 141 countries in tourism marketing effectiveness.

Chairman, that is a few key points and I am happy to take any questions at this point.

Q287 Chair: Obviously things are going well. What do you see as the main threats or main problems for the industry in Northern Ireland, if any?

John McGrillen: Probably global instability is one of the key factors. When you have political instability anywhere in the globe, it tends to ripple out across. There are probably things that are happening elsewhere that could potentially have an impact on us at some future point. Certainly the exchange rate, if it were to continue to move out of favour, that has the potential to impact. If you look at the statistics for the UK, the numbers of visitors from the eurozone is flatlining, so any further movement may not necessarily be helpful in that particular regard. From my perspective, those are probably the key ones.

Niall Gibbons: On the international side, there are a number of risks on the positive side and some on the negative side. On the positive side, consumer confidence in our key markets is very good. The key markets for Northern Ireland and Ireland from a tourism perspective are Great Britain and North America and they were the two biggest drivers of international tourism spend last year, both growing by about 5% and 6%. The air access picture is improving, which is very good. We have seen dramatic improvements in the Republic of Ireland in relation to air access. We have seen Dublin Airport hit 25 million arrivals; I think you had a debate with the airports last week. Despite difficulties with APD, we saw air access, the number of seats available into Northern Ireland, increase by 10% last summer and 13% this winter. We are also seeing things like low oil prices impact in a positive way on the sector as well, because that does help the sustainability of routes that have been introduced and brings more competition into the marketplace.

On the more risky side, exchange rates can play a good and a negative role, depending on what part of the world you are in. In the Republic of Ireland and in the eurozone in general, there is a good benefit arising from what has happened in the sterling zone and the dollar zone. Obviously in Northern Ireland, it makes it a bit more complicated, but that does swing when you look back over the last 10 years. The geopolitical situation is far more volatile than it was this time six months ago. We have seen the attacks in Paris and the difficult situations in Brussels and in North Africa. In a strange way, what that has done in terms of international tourism trends since the Arab Spring started is to push the tourism traffic from North Africa and Southern Europe up towards Northern European countries. Northern European countries have gained shares and what we are possibly likely to see this year is Ireland being seen as a more safe haven type destination. That is not the basis upon which you want to build your brand, but it is something that we do take very seriously, particularly in markets like North America where we now see 10% of all North Americans travelling to mainland Europe now coming to the island of Ireland, which is a very big market share; it is our biggest ever. So that geopolitical situation is the one that we have to be very conscious of.

Competitiveness though is one that is always critical. It is a very competitive global industry out there. The consumer has lots of choice. Technology has transformed the industry over the last 10 years and it gives people choice at the push of a button. It is important that when we are out there in the shop window in the 23 countries in which we operate that the consumer is being offered excellent value for money.

Q288 Danny Kinahan: Thanks very much, John and Niall, for your briefing. It is very uplifting when you know how well everything is going. There are two areas I want to cover: one is the tourism itself and the other is the airport side. When I was on the DETI, everything was the big event feeding down. It worked to a certain extent, but we were not seeing the bed and breakfast, shooting, fishing, the low-level tourism getting a joined-up strategy. There are two angles. Are we going to move into trying to work more on that? The second side of that, when we were at Castle Ward just now, we were told that 25% of the visitors to the north coast were local, so there is a big brand in there of 25%. VAT seems to matter more to them, in that they are the people where VAT is the high price of staying the night or the food or the travel that is going on. Should we be looking more at the broad spectrum of not the big events but the small fry that is the local industry? Should we be looking at it more and are you going to do more about it?

John McGrillen: Can I pick up on the events? Essentially we support events on three levels. We support large events like the Irish Open, which we had this year. We have what we call national events that we believe have an attraction outside of the island of Ireland that will attract people into Northern Ireland from out of state, things like the Belfast International Festival, for example. Then we support a whole range of events at a much more local level, which is about animating the destination. We tier that and we do not expect everything to be driven off large events. Because of the success of the events, I think there has been almost a reflection that that is all we do. It is a significant part of what we do, but increasingly we want to become much more focused on the broader product development that you are talking about, Danny.

What we absolutely want to be sure about is that we align our product development with what Tourism Ireland see in the marketplace as being the key market opportunities. For example, in Belfast it will be based around the young and lively market. Outside in places like the Mournes it will be around activity opportunities and again culture seekers are a key sector as well. What we want to try to do is to make sure that events, product development and all that we do is aligned to the market demand, because if we have a mismatch in that we are not going to attract the visitor.

Niall Gibbons: I think events have played a very important role in Northern Ireland because the consumer research that we carry out, and have done over the last 15 years, tells us that there is a perception in relation to Northern Ireland that while it is improving all the time, it lags behind perhaps the Irish brand. When you look back over the last five years—and I have been at a lot of these things myself—at the impact of MTV USA, NI 2012, the Titanic coming onstream, having the Irish Open here twice, the prospect of the Open coming again in 2019, the G8 summit, these are all big world events that get you headlines for the right reasons. It is one of those things where you have to keep putting the penny in the slot to keep the positive news out there. I think they have had a transformative impact in relation to the image of Northern Ireland abroad.

I hope we will be able to maintain some level of funding for events because it is important to get the name out there on the big stage, but the small player is important too. There are a large number of very small micro-enterprises involved in this industry, be it in the accommodation sector, involving the attractions, involving food, and the critical thing that we need to do is work again with John’s team to ensure that those people are mobilised to come out with us into the international marketplace to sell this destination, to make sure that they are all brought up to speed from a digital perspective as well, where we are very strong players. That is where we have to encourage investment in small SMEs because they are the backbone of the industry.

Q289 Danny Kinahan: That is fantastic to hear, because that is what I want to hear. It is just that I am sure at lunchtime I was also told of the cutback. I cannot remember what it was called now, but it was training people to be better at the service they give and how they treat clients and others.

John McGrillen: WorldHost.

Danny Kinahan: WorldHost—thank you, exactly—and that that was being cut back and surely that is the sort of thing we should be expanding or spreading. I am glad you are saying what you are saying because that is what we need. One of the complaints I was getting a while back is something like the ships coming into Belfast. It is all tied up beforehand as to where they are all going and it tends to be Castle Ward and the big attractions. It is trying to find a way to just get it open to more people and the same with the golf.

John McGrillen: Niall picked up on the issue of being digitally enabled and I think that is critical, because increasingly people take decisions as to what they are going to do and where they are going to go before they ever hit shore. If someone is getting off a ship, they generally know where they want to go, so they will be searching on TripAdvisor and other tourism platforms on the web and will be taking decisions on the basis of that and booking on the basis of that. One of the things that we absolutely need to do is to make sure that that industry, and particularly those micro-enterprises, become much more digitally enabled. Quite often we find a difficulty in linking the marketing and promotion right back to the sales and basically the contracting of a purchase or a night in a hotel or a B&B or whatever it happens to be. I think that is a critical piece of work that we need to engage on.

Niall Gibbons: We have a very strong platform in this area that we have built over the last number of years. For a small island on the periphery of Europe, we are the third largest player on Facebook in the world now with 3.3 million fans and all of those fans have 200 friends each on average. We know where they are, we know where they live, we know what they like. It is an amazing platform that makes us one click away from an audience of 600 million people. We are the second largest in the world on Twitter and the second largest on the world on YouTube. There is a big platform there for the industry to utilise at very little cost. It is not about the whole industry going out into the international marketplace. We need the people who are trained best. For example, we do an annual sales mission to China and out of the 22 companies last year, five are from Northern Ireland. That is terrific, but we don’t have enough Northern Ireland people coming out on the road with us to markets like Germany and France, which are the markets of the future, but look, we are all working in the same direction on that.

Q290 Danny Kinahan: One more while we are on this subject: the councils. I remember coming into Belfast City Airport and looking at the literature that was there for those of us who are not good at clicking and looking for it, and there was one council selling their patch fantastically, but none of the others. Is anyone talking to the councils to get them all working and pulling together so that each of the little stories in each little area are all linking up and spreading the word?

John McGrillen: I have been in this job six months. I come from a local government background. I used to work in Belfast City Council—I am proud of that—and I was in Down District Council, where tourism is important to both. We have been trying to engage with the councils to make sure that they understand the market opportunity, so they understand which sectors need to be targeted, where their product might fit in with that and how they link the two of those things together. But part of our conversation has been around how do we get away from this somewhat parochial approach and looking at each specific council area. I think we need to look at what has happened, for example, on the west coast of Ireland, where all of the councils from Cork all the way to Donegal have worked together collectively to create a brand or a product that can be sold in the international marketplace and get cut-through.

Danny Kinahan: That is exactly what I want to see here.

John McGrillen: As part of our strategy as we move forward and over the next few weeks we are engaging with the whole of the industry in six different locations across Northern Ireland and that is one of the messages that we want to be getting across. We have been pre-selling or trying to plant that seed in the mind of councils up until now. I think it is fair to say that some councils are somewhat more strategic than others and work more closely with us. I know, Niall, that would be the case with you as well, that they work directly with some of your guys and not just yourselves.

Niall Gibbons: Yes. There are a number that are probably stronger in the tourism space than others. The Causeway, up around that direction, are very good and have been down to see us and we are very keen to ensure that people are as joined up as possible. It just is not possible to have 11 councils out in the international marketplace. We have to get projects of size and scale that can get cut-through in terms of all the advertising noise that is out there at the moment.

Danny Kinahan: Thank you. I will have more on that later.

Q291 Gavin Robinson: Good afternoon and thank you for coming. Niall, could I ask you to touch on some of the casual criticism, I think is the best way to put it, that exists around Tourism Ireland? I think there was some criticism in earlier evidence sessions we have had about you being the organisation that markets Northern Ireland internationally and not others. I am not giving my view on it, I am just asking. Would you like to comment on some of the casual criticism that is there and the view that Tourism Ireland in some way hampers Northern Ireland's efforts because we are but one part of a larger whole?

Niall Gibbons: We have been in business now for 14 years. We have seen a record year last year of 9.3 million visits to the island as a whole and we have seen about 1.9 million to Northern Ireland. What is more interesting is that when you drill into those figures and you take out the numbers that are coming to visit their families and friends, who we do not really influence, the number of people coming on holidays to Northern Ireland has seen its fifth record year in a row. They have seen record years from all markets across the whole island. I think we have a great selling piece to the world, working together. I do not think it is possible for an island like this to compete. By the way, I see counties down south competing with each other sometimes too, but when we go out on to the stage—I compare it to the rugby team—it is shoulder to shoulder. The more people we can get on to this island, the bigger the cake is, the bigger the slice everyone can get.

There are some really strong players here in Northern Ireland that I should compliment, the likes of the National Trust and Titanic being two examples, and there are many others, but they are two who punch above their weight. The golf clubs do a tremendous amount of work and the golf ambassadors. Northern Ireland personalities are people we need to engage more. I think there is an awful lot of positive things that are still there to be exploited for the benefit of Northern Ireland, but we are much better off working together. There are challenges. For example, in the air access scenario, Northern Ireland airports will probably account for only about 10% of total traffic to the island this winter—in the summer months it is a little bit higher—and that affects the distribution of visitors. That is no different from the conversation that people are having in airports like Shannon, Cork and Knock as well. They are real challenges.

For us internationally, when we go abroad it is important that we put out a very strong brand message: it is a great place to come to, that people are warm and friendly, spectacular scenery, great culture, great things to see and do, you can get here at a competitive price and also ease of getting here. I think that works and ultimately it is borne out in the numbers. I have heard the criticism over the years, but I have met people from every strand from this island and we are happy to take criticism on the chin, but I do not think it is well-founded. The bottom line is that we have an amazing product and when you have the World Economic Forum saying that we are right up there at number 5 and the only country in our competitor set that maybe we could better there is New Zealand, I think we are in a good space.

Q292 Gavin Robinson: I am glad I gave you the opportunity to say that because, as I said, it was casual criticism. It is very easy to say it, but the facts don't bear it out, so thank you for responding in that vein.

Niall Gibbons: I appreciate that. Thank you.

Gavin Robinson: What I wonder though—and I suppose this is directed to both of you—is with the growth that has been present over the last number of years, 90% growth, 1.9 million visitors to Northern Ireland, does that undermine the arguments that are being made for a variation in the VAT rate or do you believe that growth would be exponentially greater if there was a variation in the Northern Ireland hospitality and tourism rate?

Niall Gibbons: It is a tricky one. The tourism industry is exercised by this issue and I can understand why, because they have people literally just down the road who have a VAT rate of less than half and the bottom line is that these are small and medium-sized enterprises trying to sell internationally and they have to price to market. You can't go to the customer and say, "My VAT is higher than his so I have to charge you a higher price". It just will not run. You have to price to the market, what the market will bear, so it means that the margins in Northern Ireland are likely to be 10% less than they would be in the Republic of Ireland. You are hearing later from my industry colleague, Stephen McNally, from the Irish Hotels Federation, who has hotels in the Republic of Ireland and Northern Ireland so you will get a better perspective there. But it is an issue that is exercising the industry here and I can understand why.

John McGrillen: We would support anything that makes us more competitive. If it makes our businesses more competitive and it gives them bigger margins and it allows them to spend more money on going out to market or carrying out sales activity we would welcome that. One of our challenges is that the industry tends to depend upon us and Tourism Ireland to do the sales and marketing on its behalf. I heard someone comment recently about they found it really challenging this year because they had to go and advertise to get people into the hotel, so there is a sense that other people do that for them. I think we need to get to a point, particularly with constrained public finances, where we get the industry to think more about how it does that for itself, how does it get itself on to platforms like TripAdvisor and Booking.com and other means by which it can transact business. If it means that there is more money to be spent on that type of activity, yes, I think it should be supported.

Q293 Gavin Robinson: I guess, Chair, that is why the evidence we have received thus far is confused. Some say they would use it to advertise and grow their business, some would use it to sustain, some would take any differential in VAT simply to meet obligations like the Living Wage and so on. It dilutes the argument, I think that is the best way to put it. I will be interested in your international experience when you are trying to encourage people to come here. When people choose to go to a destination do they look solely at price or do they choose the destination they want to go to and then pick an accommodation option or a visitor attraction option that fits their individual budget? Is there a differential between those who independently plan their own travel and those corporate entities, who may be more attracted by the VAT differential, who plan and put together a package for a group of people?

Niall Gibbons: We could be here for hours answering this question. It depends on which part of the market you are looking at. I will try keep this as simplistic as possible. For example, business that comes in what is called groups to Ireland, companies like CIE Tours International who sell a package holiday, will be very important in markets like North America, Germany and France. It will comprise about 30% to 40% of the business and price will be more sensitive there. The customer will not be aware of any VAT issue, but it is a very important issue for the industry because it is a very low-margin business, very tight, so VAT is very important. The consumers will not be making their choice based on the VAT obviously, but price will be important to them, but also the destination as well. In North America, for example, Ireland will be seen as a dream destination, "It is on my bucket list, somewhere I have to go before I die" but there is a list of other places too and there will be a premium to be paid. When you get into a market like GB, where about 95% of people will not use an operator, they will just book the package online themselves, they will book the airline and the hotels, price becomes much more sensitive in that particular market.

It depends on which market and which segment you are going after, but by and large what I would say to you is that price is very important, it is a sensitive market out there, but brand is important as well. People will pay a premium if they know they are going to get something that is extra special. What they find in Ireland is that the friendliness and warmth of the people, the stunning scenery and the culture are things they are prepared to pay a premium for, but how far that premium goes depends on the elasticity of the demand.

Q294 Gavin Robinson: The argument that if there was a reduction in the hospitality and tourism VAT, the additional revenue that remains with the business could be used for marketing does not suggest that there would be a reduced or attractive price for tourists or tour operators.

Niall Gibbons: The only evidence I can quote is Alan Ahearne, who is a respected economist down south who did some work for the Irish Hotels Federation, who my colleague might talk about a little bit later. VAT was reduced in July 2011, I think it was. The evidence after the first 18 months seemed to point to the price reductions being passed on and there is anecdotal evidence to suggest that the revenue forgone by the Exchequer, which was estimated to be about €100 million, has been fully repaid, because what is happening now is that hotels have the money to start reinvesting in their properties because they know that if you do not reinvest in repairs and development work and keep your front of house and your bedrooms looking smart, you will lose business ultimately. I think you will probably hear that from Stephen later on. I would say that the revenue forgone by the Exchequer in the Republic of Ireland has been fully made up by the spend that the industry is putting in from the extra business generated.

We have seen business in the last five years in the south of Ireland increase 20% from Great Britain, in excess of 30% from mainland Europe, nearly 50% from North America and in excess of 60% from long-haul markets and it is not far off in Northern Ireland too. When that confidence comes back into the market, people start to borrow money to invest as well.

Q295 Mr Anderson: Good afternoon, gentlemen. I think Niall just touched on it there: is there any real evidence that the VAT reduction in the Republic has had a real impact?

Niall Gibbons: There was a piece of work done a number of years ago for the Irish Hotels Federation by Alan Ahearne, who is a former economist and adviser to the Minister for Finance. The view was—and I think it has been quoted by the Minister for Finance in his speeches as well—that the reduction in VAT and associated growth in business has led to an additional 30,000 jobs being created. I can give you a copy of that paper, by the way, it is in the public domain. That has been quoted in the Irish Government's tourism policy document called "People, Place and Policy" that was released a few months ago, namely, an additional 30,000 jobs in the tourism sector, and in addition to that that the price reductions were passed on. In the more recent 18 months or so, demand is increasing to the point where it is outstripping supply, so prices do start to go back up, but certainly the view would have been that, first, prices had been passed back on, and secondly that there was a significant benefit to the Exchequer. The Minister for Finance has reflected that in the statements in the Budget.

Q296 Mr Anderson: Would that reduction in VAT not have coincided with a drop in the value of the euro compared with both the pound and the dollar, so it was a more attractive destination for people from Great Britain and America anyway?

Niall Gibbons: There is a range of factors. You would need to go back to that period of 2010, which was the low watermark for the tourism industry. There was a crisis within the industry, numbers had fallen significantly and the Irish economy was in distress. There was a view that measures needed to be taken to try to stimulate growth. At a time when a bailout had been announced only a number of months earlier, a risk was taken to reduce the VAT rate for the sector by 4.5%. When you look at what has happened, a number of things have come together at one time. The abolition of airport passenger duty also led to an increase in the number of flights. Investment in marketing that was consistent over the years as well has been a factor and we have benefited from consumer confidence increasing the market. So there is a cocktail of factors that are working together, but if you talk to any of the Irish industry members—and you will hear the view of the Irish Hotels Federation after this—the view is that the VAT has probably been the most significant measure introduced in Irish tourism over the last 20 years.

Q297 Mr Anderson: I know it is not where you are coming from, but in terms of competition between the north and the Republic, would most people coming here realise that VAT is more here than it is in the Republic or would they look at it and say, "I am going to go where it is £40 a night for a B&B or £100 a night for a decent hotel or £200 a night for a really good hotel"?

Niall Gibbons: We would not have research on that, but I can tell you from my own experience that no one would have a notion what the VAT rate was really. The bottom line is that they are coming for an experience and the question is are they being given a competitive rate in relation to what they do. Competitiveness is also important and exchange rates do impact on that. Visitor attitude surveys are carried out every year. Just to give you some numbers, from the British market, where exchange rate volatility can be an issue when you look over a period of 10, 20 years, in 1999 3% of British visitors rated the Republic of Ireland poor value for money. By 2009 that had increased to 41% and the number of British visitors had fallen by over 1 million. That produced a crisis within the industry as well. What we are seeing now is the value for money rating back to its best level in 10 years and there are a number of factors that have played into that. The industry did get more competitive; the VAT rate did help in that respect as well. It was a major boost to confidence.

The exchange rates play an issue, but in response to the question, "How much was the change in the dollar and the euro rate driving additional business?" Oxford Economics estimated last year that that change drove an additional 1% of business in outbound travel from the United States. What is interesting is that the Republic of Ireland's business—because we are in the eurozone—from the United States increased by about 13% or 14% for the second year in a row, so we saw significant market share gains. There are a number of factors that are happening there. The exchange rate is one part of the picture, but it certainly is not the factor that drives everything. There are, I think, 19 countries in the eurozone and they all have the benefit that the Republic of Ireland has, but we grew market share probably twice as fast for the last two years. VAT has to play a role in that competitiveness; investment in marketing; a good product. There are a lot of factors that play into that space.

John McGrillen: It is probably also fair to say that if you compare Belfast with Dublin, when you look at the cost competiveness of the two cities, despite the exchange rate, Belfast is probably every bit as cost competitive as Dublin because there are pressures in the market, therefore hotel prices are going up. Belfast is probably not yet at that point, although starting to move in that particular direction.

Picking up on Niall's point, if we look at what has been happening in the south as a result of the exchange rate, we have not seen necessarily a drop in the numbers of people who are coming north. What we have seen is that they are going to those places that have stand-out and are differentiated from what is on offer in the Republic. Titanic Belfast and the Giant's Causeway for the most part are continuing to have numbers coming at the same level as they had done previously. The problem is that people are now deciding they can do that in a day, because the infrastructure allows them to do it, and it is becoming more of a day trip experience than people staying overnight. There are issues around perceptions of places being more expensive because the exchange rate has moved in a certain way, as opposed to people checking out the prices to see what it is like and how that works out in reality. I think there is an issue around perception versus what happens in reality. We have seen visitor numbers coming across the border being steady, but the number of people who are staying are less.

Q298 Mr Anderson: If they are competitive, what is in it for the taxpayer? Why should I say to people in my constituency, "You are going to have less money for the Treasury to spend on public services so the tourism industry can be better in Northern Ireland when it is already competitive"?

John McGrillen: I do not know if work has been done on this specifically in Northern Ireland, but the experience in the south has been that while there has been a loss in VAT income to the Exchequer, that has been returned in other ways through taxes of other forms.

Mr David Anderson: Don't get me wrong, I am thinking what the Treasury would be saying to us.

Niall Gibbons: Tourism has delivered more jobs in the Republic of Ireland than any other industry. Whereas before people would have talked about foreign direct investment, exports, which are strong as well, tourism has delivered more jobs in the last four years. They are jobs where people come in at entry level, they are jobs that are here to stay, they are indigenous and they are long term. What you are looking at in the Republic of Ireland is a situation where you had an unemployment rate of 15% and it is now 8.8%, the deficit was eliminated last year and tourism has been a major contributor to economic development. I think that is recognised at the most senior levels in Government. It is indigenous here in Northern Ireland and it has been recognised as an industry that has an awful lot more to give and that it will require investment and measures that can aid competitiveness as much as possible.

Q299 Nigel Mills: The feedback you quoted, Mr Gibbons, that people felt Ireland was not cost-effective as a place to visit, is that mirrored in people who come to Northern Ireland? Do they think the same?

Niall Gibbons: The research I was quoting, do you mean about 1999 and 2009?

Nigel Mills: Yes.

Niall Gibbons: That was a survey carried out in the Republic of Ireland and there would have been two things impacting on that particular survey that saw British visitors' perception of Ireland going from strong value for money to poor value for money. You had movement in exchange rates and you also had Ireland became an expensive place to do business around that 2004-2007 period, what was called the Celtic Tiger era, when costs of doing business were very high. Two things have happened, the reduction in VAT and the reduction in the costs of doing business have impacted on that, and that is reflected in consumer surveys over the last four years. The value for money perception has improved every year.

Q300 Nigel Mills: Do consumer surveys in Northern Ireland come up with the issue of value for money?

John McGrillen: If we were interviewing people who had come here on holiday, what their view is?

Nigel Mills: Yes.

John McGrillen: I would have to dig out the statistics because I don't have them at hand, but my understanding is that the vast majority of people who come here see it as a good experience and good value for money. We do have research that has been done that could give statistics directly relating to that, which I can furnish you with, but my recollection is that we are regarded as a value for money destination.

Q301 Nigel Mills: While you are there, Mr McGrillen, on the issue that Mr Robinson raised about whether having a whole-Ireland focus outside Ireland works, if there was one place where there is no exchange issue to come to Northern Ireland it is from GB. Do you ever wish that you could be marketing Belfast or Northern Ireland as a weekend destination to more people in GB because of that? I get the feeling that most of my friends and colleagues who have never been to Northern Ireland would not think they would want to come for a whole weekend, but there is clearly enough here to have a good weekend. Is that something you think you could change if you had that responsibility rather then the worldwide one?

John McGrillen: I have only been in the job six months so I have not had time to wish for very much. It is not something that I have given consideration to. For me what counts is the visitor numbers that we drive into Northern Ireland and the impact that has on the economy. Last year we saw something like an 8% increase in the numbers of people coming from GB, which I would have thought is quite a strong performance. Unless we had the resources and could demonstrate that we were doing it better, I think it would be hard to make that argument. The other thing we need to take into account is that there are economies of scale in not having two sets of offices and two sets of things.

Q302 Nigel Mills: But you do. You both exist, don't you?

Niall Gibbons: Not abroad though. Internationally there is only one.

John McGrillen: We exist for different purposes. Essentially these guys are our international sales arm. Our job is to help develop the product and Niall and his team's job is to sell that product on our behalf in the international marketplace.

Q303 Nigel Mills: Yes. I guess I was regarding GB as a domestic marketplace.

John McGrillen: Yes. I suppose the other issue from my perspective is that this is something that is agreed in an international treaty. It is not going to change, so I have not exercised my mind about changing something that is not likely to happen.

Gavin Robinson: Not that it is not going to change, it is just that the plans are not there yet.

Niall Gibbons: I think it is important that we do not get distracted by this, because it is a very competitive marketplace and I have seen these distractions over the years. They don't distract us, but they do distract others. We have a very big platform that is available for Northern Ireland. We have 22,000 international media in our database. We have one of the biggest social media platforms in the world. We are ranked fifth in the world by the World Economic Forum and we have a brand that ranks ahead of most other destinations. The question is how do you utilise that to the best effect for Northern Ireland? If we distract ourselves with things that were agreed 15 years ago, I am afraid what is going to happen is that the Republic of Ireland is going to continue to make advances and Northern Ireland will be having the conversation. The debate ended for us a long time ago. I think we do a very good job. We do work very closely together and what is good is that the team in Tourism Northern Ireland gives us the critical messages that we need to be delivering to the marketplace and I am very confident that we are doing that very well.

Q304 Nigel Mills: We don't need to have that debate again. Mr Gibbons, if I am a tour operator coming to the island of Ireland and I have my top 10 things, how many of those top 10 things are in Northern Ireland that you push to people in that situation?

Niall Gibbons: The bottom line is that the tour operators themselves will know what their customers want and they will be able to identify what they are looking for.

Q305 Nigel Mills: If I did a TripAdvisor search on the top 10 things to do once I have flown into Dublin, how many of those would you be pushing as being in Northern Ireland?

Niall Gibbons: The customers push TripAdvisor. That is not us. The bottom line is if you go to our website on Ireland.com and look at what are the biggest things in Northern Ireland, you will find the Titanic, the Giant's Causeway, Royal Portrush and Royal County Down. The Gobbins is an absolutely fantastic attraction. We have incorporated that into our TV ads and thanks to the team on the ground in Northern Ireland for getting our markets in at a very early stage into that particular project. The extension to the Waterfront Hall in Belfast is going to be very important from a business tourism perspective. You have the country activities out in places like Fermanagh; there are niche activities that were mentioned earlier on in relation to game and angling and that type of thing.

Q306 Nigel Mills: You are listing every attraction, which was not quite what I was hoping for. I will try it a different way. If I am staying at a hotel in Dublin and I look at the board of things that I can do for a day trip, what proportion of those adverts are going to be Northern Ireland ones, do you reckon? Is it a tenth? Is it a third? I just want to get a picture of how easy it is to disperse people from Dublin into Northern Ireland.

Niall Gibbons: In our advertising overseas, if you go on to our website and social media, Northern Ireland is one third of the advertising over the course of a year and our internal auditors review that. If you go into enterprises in the Republic of Ireland, that is not the space that we are in and the bottom line is that that will be reflective of how active the industry on the island is in trying to peddle their wares. Things like Paddywagon Tours, for example, will do tours up to Belfast, they will do day tours to the Cliffs of Moher and so on. It is a matter for individual enterprises to peddle their own attractions.

John McGrillen: I think the experience of the Incoming Tour Operators Association is that the number of tour operators that have Northern Ireland as part of their itinerary has moved from 11% to 27%, so it is becoming increasingly a part of their market. I happened to be in Dublin just after the New Year and in the hotel we were staying at there were trips to Titanic Belfast, to Giant's Causeway, there were "Game of Thrones" trips on offer by tour operators on a day trip basis out of Dublin. Part of our target would be to try to make sure that those are not day trip visits out of Dublin, that we are capturing those people and those day trips become a two-day trip or a three-day trip.

Niall Gibbons: That is a very important point. One of the things that we put into our strategy a number of years ago was the access picture into Northern Ireland, because there are some markets where we are not served, like Canada and Germany, and we are limited in some other markets. While that will not happen overnight, it is important that where there are tour operators that are already serving the Republic of Ireland, we get them to programme Northern Ireland. There are now 775 tour operators programming Northern Ireland. That is a 10% increase on last year and that was again as a result of the work between ourselves and Tourism Northern Ireland to programme them into the link. By the end of 2016 we expect that will be up around 900 tour operators and at that point then just about every international tour operator who had been programming the Republic of Ireland will have at least one overnight. These are people who only do overnights, not day trips. The key then will be to build the relationships to see if we can get people to stay two nights. There is an incremental build and it requires hard work and graft and getting out there into the international community and marketing and selling.

Chair: We have one minute left, but three very quick questions.

Q307 Danny Kinahan: I have many more questions than that, but on the airline side, Brian Ambrose last week started off by saying that we cannot compete with the connectivity of Dublin, but in Northern Ireland I would like to see us at least trying to compete. Therefore, if you are trying to get Germany and Canada and airlines in, why would you make a decision to put a German airline or a Canadian airline into Belfast International—it is more difficult in Belfast City—rather than Dublin? I have never understood how it works when you have big placards in Belfast saying “Dublin Airport” and we know that 52% go there and, great, I am glad we have had success from it, but why and how do we spend to get those two airlines? Can you explain a little bit about the money and what do you do to get it here rather than Dublin?

Niall Gibbons: In relation to air access development, air access is the lifeline of our industry. If we don’t have air access we are all in trouble. We do a number of things. First of all, we will work with airports in making cases for additional routes because we have a lot of data in relation to customers, who they are and where they are based, and we are very happy to do that. The principal relationship though is between the airport and the airline. We would be and always have been ready to put marketing support in place for any new route that would come in to deliver additional business. Last year we worked with 27 different carriers on routes across the whole island of Ireland and many of them into Northern Ireland, some of those new routes being Vueling, KLM, this year Ryanair and Aer Lingus as well obviously. Our interest is to make sure that the inbound leg of those routes is as full as absolutely possible. We have a very good package in place, second to none, in relation to making sure that the marketing is effective.

It is disappointing that we have not had more success. For example, in Canada, which is a very important market for this island, but particularly Northern Ireland given the diaspora that is out there, there were three carriers serving Canada in 2008: Flyglobespan, Zoom and Air Transat. They have all gone, and whereas there were 4,500 seats per week in the summer months coming into the island and about half of them to Northern Ireland, there are now 6,100 coming into Dublin.

Q308 Danny Kinahan: What are you doing to get them here though?

Niall Gibbons: We have supported a bid that has gone in from airports in Northern Ireland in relation to Canadian routes and German routes, but all we can do is put the marketing support on the table. It is for the airports to try to get over the line and we support as much as we possibly can. We are still engaged in conversations with carriers and airports all the time. We give additional support for Northern Ireland, because it is part of our remit to support Northern Ireland to realise its tourism potential. But certainly from a strategic perspective, we would see Canada and Germany as being two absolute priorities.

Q309 Gavin Robinson: It is very brief. Chair, I think we anecdotally discussed this a number of weeks ago and we are not sure if it is true or not, but is it the case that a registered hotel in the Irish Republic can close for a period of time during a year, whereas Tourism Northern Ireland requires registered hotels to remain open 365 days a year? Is that right?

Niall Gibbons: I am fairly sure, and you are going to have the right man later on who can definitively answer, there are hotels from a seasonal perspective that would not open all year round because it would not make sense to do so.

Q310 Gavin Robinson: In the Irish Republic?

Niall Gibbons: In the Irish Republic, yes. I am not too sure about here though.

Q311 Gavin Robinson: But I believe that you are not allowed to do that in Northern Ireland. Is that right?

John McGrillen: Again, I am not fully over it, but my understanding is that is the case. I remember this debate taking place when I was on the board of the Tourist Board, as opposed to an employee of it, at some point in the past.

Q312 Gavin Robinson: I ask that question because if that was something that could help sustain a business that is dry in January, February and March, but busy come Easter right through the summer, it might be more helpful. It would be good if you could write to us with the position on that and we can ask the next witness as well.

Niall Gibbons: Sure. Yes, we will clarify that.

Chair: Thank you very much. We are out of time. It has been very useful. Thank you very much.

Examination of Witness

Witness: **Stephen McNally**, President, Irish Hotels Federation, gave evidence.

Q313 Chair: We will kick straight off, if that is okay, Mr McNally. You are very welcome. Thank you very much for joining us. I wonder, before asking you the background, if I could bring Nigel Mills in. He has to go in 10 minutes.

Nigel Mills: He can do an opening statement.

Chair: Are you sure? Right, but very brief. Thank you.

Stephen McNally: I have kept the opening statement short. Chairman and members, I would like to thank you for the opportunity to address the Northern Ireland Affairs Committee here today in Belfast. My name is Stephen McNally and I am the current President of the Irish Hotels Federation. The Irish Hotels Federation was founded in 1937. It is the national representative organisation for the hotel and guesthouse sector in Ireland. We are a key stakeholder in Irish tourism and the hospitality sector represents over 1,000 registered hotels and guesthouses in southern Ireland. We work closely with the Northern Ireland Hotels Federation on matters of mutual interest. I am also deputy chief executive with Dalata Hotel Group plc, which is Ireland's largest hotel group. We have 39 owned, leased and managed hotels across the group. We are represented both north and south of the Irish border and we also have hotels in Leeds, Manchester, Cardiff and London. In Northern Ireland we are based in both Belfast and Derry and we currently have three hotels with a total of 366 bedrooms.

I was invited by Nick Taylor to be available to you to answer any questions you, the Committee, have in relation to promoting tourism in Northern Ireland through the tax system and to share my experiences in southern Ireland. Tourism is one of Ireland's largest indigenous industries and provides almost 205,000 jobs, equivalent to 11% of our total employment in the country, a figure that has grown by 30,000 since 2011, when the tourism VAT rate of 9% was introduced. It accounts for almost 4% of gross national product. In 2016 we expect 8.2 million visitors delivering €4.4 billion to the Irish economy. The international tourism market is exceptionally competitive and every tourism euro spent in Ireland is hard won. Value for money is an important factor in achieving growth in overseas visitors, as reflected in recent research published by Fáilte Ireland, which is our national tourism body.

Finally, Chairman, thank you for the opportunity to address the Northern Ireland Affairs Committee. I look forward to addressing any matters you want.

Q314 Nigel Mills: I am sorry, I will need to leave when I have finished questioning you. Can I ask you a question first as a hotelier rather than a representative body? In terms of where you allocate the funds you have for investment, does the higher VAT rate in Northern Ireland make it harder for you to choose to invest north of the border rather than south?

Stephen McNally: There is no straight answer to that question, because nobody behaves in the same manner as a hotelier. It depends, first of all, on the condition of your business. For example, some hotels on average would spend 4% of their turnover on sales and marketing and a similar 4% on refurbishing, if I took a generalised figure, but that is what you would be working off. If a euro comes in, 4% goes there and 4% goes there and then the VAT takes that much off, you obviously have less in the pot to spend. What we have learned since 2011, because we probably suffered electric shocks in our country with what happened in 2011, is that when we introduced the VAT rate we became competitive again and the customers voted with their feet. When the euro came in there were questions: did we reduce our prices accordingly? I think we learned a harsh lesson there and we did reduce our prices, but when the VAT changed the prices did reduce and that was right across the country. I suppose people all got together and it is about a big collaboration, about getting everybody together, whether you are hotelier or a local, even the person in the local village. They are all effectively tour ambassadors for their country and it is making people feel welcome and making sure things happen. In answer to your question, obviously the more money you have to spend, every time you have extra expenditure you will certainly spend it on sales and marketing and refurbishing.

Q315 Nigel Mills: If there was a reduction in VAT in the UK you would not be thinking that would be passed on as a reduction in price, you would be thinking that will be spent. Is that what you meant?

Stephen McNally: No, sorry, it had to be passed on in price because—I think it was mentioned earlier by my colleagues—we were not competitive, which was the problem we had before the crash, we just got too expensive. It meant that people did not come to the island. We are an island, you have to get on to our island and if we don't fly them in or get them to land, first of all, it is all about that package.

Q316 Nigel Mills: The previous witnesses said that you price to market and so the market, especially around the border in Northern Ireland, is affected by the market price in the south. They have implied that you would not necessarily change your pricing because you are already pricing it where it gets you the occupancy level that you want, so a VAT reduction would effectively hit the bottom line or be used for something else. Is that your experience?

Stephen McNally: I think supply and demand comes into it then, because there is a market price that somebody will pay. But we have hotels in the north and the south, and as my colleagues mentioned earlier, it is more and more that of the six days they will spend in the country, they will spend one day in Northern Ireland and five in the south. We have a hotel in Derry that is very close to the south, it is just over the border from Donegal, and we will send the quotes in, but we will see them moving over to the south because naturally enough the quotation in the south is going to be better because of the VAT, unfortunately. The customer does not know the VAT rate, does not care what the VAT rate is; they want to know what the price is. When you are putting your price together, you have to put in the VAT rate. As part of the whole mathematical equation, the VAT rate is input. If there is an 11 percentage point difference, it is quite a lot straight away gone into the price before you start.

Q317 Nigel Mills: Are you thinking that if the margins in your hotels and your rivals around the border are so low that maybe it is hard for you to invest, perhaps you would not fancy expanding that hotel at this stage even though there is probably a need for extra hotel capacity in Northern Ireland?

Stephen McNally: If you take the south, we have about 1,000 hotels and guesthouses, we have over 800 hotels in the south. We have lost 100 hotels since the downturn, but the average size of the hotel has gone up. We would have been about 950 hotels before the crash. We are about 850 registered hotels now, but the average size of those hotels has gone from 40 bedrooms to 60 bedrooms. I do find that when I come to the north and we have 135 hotels for the size of the land versus 850 for the size below, it kind of says there should be more hotels here.

Something that is really important as well, I think we are fortunate because our Taoiseach came from tourism and our Health Minister came from tourism. Tourism is seen as a very important role in the south because we understand that tourism is that important to the country. If tourism is not going well, confidence can be very low. If the numbers come in, the tourists come in, it definitely raises expectations. We have been very fortunate that the Tourism Minister sits at the top table of Government, not as a Minister for State or second or third position, but right at the top table, so it means tourism gets a good hearing at Government level, to my mind.

Q318 Gavin Robinson: Good afternoon. I think you probably heard my final question to the previous witnesses about whether it is the case that hotels are able to close for some part of the season in the Republic of Ireland and whether you can or cannot do that in Northern Ireland. From your personal experience as a hotelier—

Stephen McNally: You are quite correct, yes. In the south there are what we call seasonal hotels, but they determine when they open. I have colleague hoteliers who will open just after Easter; I have some that will open just before Easter. It depends on the year and the business levels, but they open according to business levels. In the hotels I have in the north I would not be closing any of them because they are in city locations, so I would not be considering closing them. I am not sure of the rule if there is a hotel out in the rural part of Northern Ireland. I am not sure of the rule on that, so I couldn't give you a definitive answer on it.

Q319 Gavin Robinson: That is fair enough. Thank you. Of the hotels that you own in Northern Ireland and the ones in the Republic, did you own them all before 2011, before the change in the VAT rate?

Stephen McNally: No. We are a relatively young company. We started off in 2007 as a company with 11 hotels and now we have 39, so we have grown over that period.

Q320 Gavin Robinson: Did you have any in Northern Ireland before 2011?

Stephen McNally: We would have managed the Maldron Hotel at Belfast International Airport.

Q321 Gavin Robinson: It is probably an unhelpful experience to ask you the next question, because I suspect it is a very niche market for the Maldron Hotel in that it is driven by the requirements of the airport, but I was going to ask about any marked difference in the Northern Ireland sector that you may have picked up in comparison with the Republic of Ireland hotels you owned when the VAT rate changed.

Stephen McNally: My colleagues have mentioned our economist, Alan Ahearne. He wrote a report in 2015, which we commissioned. He is an adviser to the Government. It is on the public record and again we can get you a copy of that. There is a summary page at the front that will save you reading all of it, if you don't read everything, but there are a couple of key points here. In 2011 the industry was on its knees and the Government then made the decision to change the VAT rate but also to change the airport duty at the same time. When he wrote his report in 2015, the key points, if I could summarise them, were that it created an additional 30,000 jobs. There is no question about that. One in every three jobs we have created since then was in tourism and effectively what we have done is brought our unemployment rate from 15% down to below 9%, so it has been massive. Again, we had an earthquake hit our country in terms of economic downturn, so it was very difficult.

The other thing is competitiveness. We suddenly became competitive, which proved the point that the pricing worked. In other words, when the VAT came down by 4.5 percentage points, people did adjust their prices. The other important point for me, looking at it ever since, is that if you look right across Europe, I would say 85% of Europe are around our VAT rate, they are around 8%, 9%, 10%. There are only two or three countries at the UK rate—I think one of them is Slovakia, Sweden is high, and here—and they are the only three where it is very high. Everybody else gets tourism. The Germans even have it, I understand, at 5.5%. I think what has happened is the competitive thing has worked.

The Exchequer costs is a good question and they made presumptions beforehand. The report says quite clearly that the Exchequer costs are relatively little because our numbers went so high. Going back to our tourism numbers, if you look at it in 2011, we had approximately 5.9 million international tourists into the south. Last year it was 8 million, so we have jumped 2 million tourists. I go on holiday and I have a budget. That is natural behaviour. You look at TripAdvisor on where I should go, but the budget has to fit. We are in euroland, fine, the pricing is good enough now that we are competitive and people vote. I am in absolutely no doubt that it is not coincidental that all these numbers have grown: the VAT has grown; the VAT came down; the numbers of jobs grew. Four years on, what we are finding is I would say 60% of the hotels are undergoing refurbishment because they have been so busy and that means jobs that we are not even counting. We have electricians, painters, people carpeting and restaurants being replaced. There is a whole load more that comes on to this and I think that is also very important.

Q322 Gavin Robinson: If there is such significant growth and you directly attribute it to the change in VAT where there is 30,000 jobs, increased visitors, increased spend of €4.4 billion, is the Irish Hotels Federation nervous about a change of VAT rate in Northern Ireland? Would you see that as removing the advantage to your members' disadvantage if Northern Ireland was to get a better rate?

Stephen McNally: No. I will put it to you another way as well and it is really important to me: when I look at the country, the whole land of Ireland, north and south, seven out of every 10 bedrooms come from the island, but that comes from something called confidence, so the growth has not just been what we bring in, but the confidence it creates on the ground.

Q323 Gavin Robinson: The corollary of that though would be instead of staying in the Republic of Ireland any visitors would come to Northern Ireland because of the lower rate.

Stephen McNally: Exactly the point.

Gavin Robinson: Is the Irish Hotels Federation nervous about that?

Stephen McNally: No, I don't think so. We clearly see that if the island is working well they will come. If there is something wrong on some part of the island, they might not come to the island. I look at it as a visitor arriving in a country. We have this parochial thing sometimes, we have county councils like you have here, but when you cross the border in Leitrim into Mayo the ground does not change or anything, so the visitor does not see anything different, and the same going to the north. What we have to get is people working very much together and that has happened now. People see the bigger picture. The Wild Atlantic Way goes 2,500 kilometres down the west coast. There are a number of county councils, but I don't know who does what bit and I am not interested because it is for the good of tourism.

Going back to the confidence thing and about getting people to travel if the conditions are right, pocket has a lot to do with it. There is no doubt that if somebody is going to have a weekend away, certainly the way the rate is now they would not be considering Belfast as often, but there are the tourism attractions. Titanic gets a lot of people up from the south, people who have never visited Belfast, by the way, and that is another issue. It is probably just making sure there is confidence in people to come here and that is another one.

Q324 Gavin Robinson: If the quest for a reduced level of VAT in Northern Ireland was successful, then the secondary rate for UK VAT is 5%, so that would be lower than the 9.5% in the Republic of Ireland. Would there be a clamour of requests for further interventions, do you believe, among your members in the Republic?

Stephen McNally: We have members at the moment asking for 5%, so I think when you go into the shop and you get something, you want more, don't you? I think that is naturally what happens. When I look at the overall landscape, if we can make it easy for the customer, and we always have to look from the customer's eyes: is this island easy to travel through? Is it easy to get north and south? Which it is, it is so much better. We just have to make it as simple and easy as possible for them and then they will come.

But the one thing that is really important here, and Niall referred to earlier, is the growth in visitors from the UK, which is huge and the growth in visitors from America is huge, and they travel up and down the country. They don't want to be in Dublin or Belfast, and this is where the jobs are being created in rural areas to get them out and about.

Q325 Mr Anderson: It links back to what was said before about people who come from the south to the north and basically go straight back when they have done whatever they want to do. Has any work ever been done about whether people are put off by the fact they have to change money? Are things being done about the impact of that?

Stephen McNally: I would probably turn it around. Everybody gets their go here with the currency. For example, it is like going to the shopping centre in Newry when the currency was more or less level, it was full of Irish cars. They did not mind changing money then and it kind of works the same way. I think people have no issue about changing the money. It becomes very expensive now because the currency is against, the VAT is against, and even landing, the £13 charge, is very high when you add that in and add that back out. You have to be uncompetitive and we see that. There are no landing charges, so all these airlines are coming in and the first thing they say is, "I do not have this cost to put in". I read some of your report from last week on the airlines, and I wish I could move some of the hotels to some of these locations. However, I could move the hotel and put it there, but the airline can move and that is a big issue.

Q326 Mr Anderson: Thanks for that. In terms of your experience with your business in the Republic, my understanding is that the VAT has been reduced on hotels and on restaurants.

Stephen McNally: Yes.

Mr Anderson: Would you say the same thing should apply here?

Stephen McNally: Yes, it is on newspapers in the south as well, on leisure club membership, leisure activities. It goes across quite a range. People always say it is a 9% VAT rate in the hotel sector, but they forget it is in the coffee shop, the restaurants and the leisure clubs. There is certain activity where it is 9% and certain activity where it is back up to 13.5% or even 23%. Beverage is at 23%, which is higher. I would think that that is correct, yes.

Q327 Mr Anderson: When the VAT was reduced in the Republic, what did you as a group do with that reduction? Did you put it into lower prices or upgrade the hotels or increase wages or what?

Stephen McNally: It had to be prices, because we knew we were uncompetitive. We knew we were not attracting people. We have a national minimum wage that has just increased now. One thing is that the national minimum rate in the north is cheaper than it is in the south, but then we have lots of other costs that are a lot higher in the south and that are higher in north, so it works both way. But labour for us is a significant part of the business because it is all about people. If you are running a lot of food and beverage and weddings and functions, you can have a labour percentage of 40%, so 40% of your euro is going on labour. Some of those costs are high and some of those costs are lower. I think there is a balance on both, but it does come down to what the customers charge. I was very clear and the hoteliers themselves, the businesses were very clear that now we had an opportunity to do something with the pricing, to get it changed. We did do that, we were told we did that, Fáilte Ireland have checked that we did that, and again the customers have voted, all these visitors have voted and that is very important.

Q328 Mr Anderson: If somebody went to Belfast and they went to Dublin from America, would they see any real difference today in terms of the quality and the price they paid at different levels, so starting from a B&B, a reasonable budget hotel and then to the very best?

Stephen McNally: We had an explosion of hotel growth in the south prior to the crash, where lots of hotel rooms were built. I think 18,000 new bedrooms were built in the period before that, so we have a lot of probably newer product, if that is fair to say. Then through the downturn we lost a lot of bad product because they could not stay open and be viable. I think from a quality point of view, Belfast city is good. Out around the regions you can see they are under-invested in. When I look at it as an hotelier down south, I would probably find the hotels better invested in in rural Ireland than I would in rural Northern Ireland and that is probably true over the years. This comes back to some of the VAT as well, because once the money is spare, people tend to think it goes into somebody's pocket and they run away with it, but what a lot of hoteliers do is put it back in the business to keep themselves competitive. If you fall behind in the stakes of quality, you won't make it.

Then you look at people, because people is massive. We invest an awful lot now in training in the south and that has created a lot of jobs as well and we have had to train them because we needed all these 30,000 people. You can't underestimate the amount of training that would have to take place and I do think in Northern Ireland, because there are fewer hotels, there are fewer people about. There is a massive opportunity up here to get more people trained up, whether it be bars, chefs or accountants and staff in leisure clubs. It is not just about waiting. There are loads of very good jobs there. When you look at the market and you are looking for specific roles, there are not that many available up here and it is wide open for improvement.

Q329 Gavin Robinson: Do you mind if I pick up on that point about rural investment? When I think of going to a hotel I go there to stay over so I can go and do things, whereas it seems that the rural hotels that succeed in the south are destinations in themselves. In fact, they are in the back of beyond and there is nothing else to do anywhere close, but it is about swimming pools and spas and just relaxation. Why does that succeed or why do you believe so many have invested that way in the Republic and it has been slower in Northern Ireland? In Northern Ireland I can think of Galgorm and Lough Erne, but there are few others that are of that similar standard, whereas in and around Dublin, the border counties and probably further down it is littered with destinations in themselves where people stay.

Stephen McNally: Maybe if I put it like this, there were 900 hotels at the downturn time, then 300 of those became insolvent, so we over-invested in product at a certain time. We still have it, which is good. The counters have been reset with the banks and we have new owners. There was a lot of businesses who availed of tax breaks and things like that and built hotels for the wrong reasons in certain locations. In Belfast, for example, I think the Clayton Hotel is the only one with a leisure club and it is strange to me that people are not doing that. But it is costly building those, because you are not going to build a leisure club rurally logically because the footfall is not there. It needs to work off a membership scheme to work. The additional benefit is obviously hotel guests can use it, but they are usually using it for free. It is down to membership numbers. You need to think about whether you do not have enough capacity or somebody can do the numbers and say, "You know what, there is enough people living in this town, there is not enough leisure clubs". If you look in Northern Ireland as well from a public point of view, there are lots of public swimming pools and public areas that are much better serviced than maybe they are in the south, so the hotels may be taking advantage of that and build their own for that reason.

Q330 Danny Kinahan: That is fascinating. I had to spend 10 years of my life driving happily around Ireland and it used to be a battle on the roads, as you know, and now the roads are so fantastic. I rather feel that when we are looking at the issues—today we are focusing on VAT and we have mentioned APD—there seems to be a whole mass of other things that we need to do. Your hotels changed their size and their shape to fit the new markets. What else should we be looking at? I have visas sitting in my mind. At your airport you can deal with visas. Is that something that has made it easier? You raised the minimum wage as something else. What other things? Is there something we are not looking at that is also a key factor that is bringing people in?

Stephen McNally: I genuinely believe it is a confidence factor as well. It is about bringing people in. To be fair, people in Northern Ireland are fantastic at looking after people. We just have to get them in here and they will be looked after. There are bits that can be better. We see things in our own hotels in the north that we can do better and some of that is down to a lot of training. We probably under-invested in training in the north over the years, that is what I see, or maybe invested in the wrong areas. It comes back to treating tourism seriously and that has to come from the very top. If you treat tourism seriously and then you say, "What do I need to put in place for tourism to go really well?" you start off with your basic asset in tourism, which is going to be your people, so we have to put the jigsaw in place for that to happen and make people feel proud of it and sell it and everything else. When you are here that happens, absolutely no issue. Maybe it is a confidence thing where people will approach you more in the south than they will in the north. So you are going to get something, you get it very well, the service is adequate, it does what it should do, but maybe they don't go and grab you to get it, if that makes sense. It is a training thing. It is just investing in people and making them feel important and making sure that we make the visitor feel important. If somebody is in Belfast or in Northern Ireland they may come and feel a little bit unsafe because naturally they will have read books and wonder what is happening. That is why it is even more important to give them that confidence. There are so many things to do.

You mentioned things to do right round say wet areas in Ireland; what do you do? One of the things the hoteliers did was they wrote down a list, with the tourism agencies, of 10 things to do when you are here, wherever you are. It could be pitch and putt or riding donkeys or down on the beach or whatever. Then we discovered we had to do another 10 things to do when it was raining, because we get a lot of rain. It is all the time focusing on the customer and thinking about what do we have to do for them. Most importantly we all the time check that the return rate is high, that people come back because they are genuinely made feel welcome and feel that people are genuinely interested in them.

Q331 Danny Kinahan: You obviously interact with Tourism Ireland, you interact with England. Do you have a big presence there? Do you go to their conferences? Do you listen to what is happening there?

Stephen McNally: We do, yes. The Northern Ireland Hotels Federation invited me to their conference here and we came up. I drove the car back down to Dublin thinking we are so lucky with what we have, because the landing charges were up, there were loads of issues and everybody was preoccupied with all these issues rather than preoccupied with, "How are we going to get started here?" Maybe rather than looking in, we have to start thinking that we have to move forward somehow. There has been a lot of talk going on for a number of years on this now. I went down driving the car and thinking when I see Minister Donohoe next time I will not be complaining as much. The agencies, whether it be Fáilte Ireland, Tourism Ireland, ourselves, the Tourism Federation, we all work together as well, so if something is coming in, we all work together to make sure that that thing works well, whatever that event is, whether it is a big conference in the city.

We have a problem in Dublin at the moment—you will probably read the headlines—where it is very hard to get rooms in the city at certain times. Dublin at the moment is the highest occupied city in Europe for accommodation. We have 18,500 bedrooms down there and yet we are only number 15 in terms of rate. But we have this debate that if we tip higher than 10, if we start to rate up to 10 we are probably still okay competitively, but if we start pushing the rate harder and harder, we will become uncompetitive and then it will drop off. But the VAT has allowed us to get the rates sorted.

Danny Kinahan: You have given us a lot of matters to think about, so thank you.

Q332 Chair: On that last point, the highest occupancy, is that percentage of rooms?

Stephen McNally: Yes. London and Dublin are neck and neck for occupancy and the occupancy rate is about 82%.

Gavin Robinson: Moving towards the 1916 commemorations as an occupied city?

Stephen McNally: Full occupancy we want for that, yes.

Q333 Chair: Moving on from that, I understand—I might have this wrong—there are six new hotels being planned in Northern Ireland as we speak. Is that correct?

Stephen McNally: Yes.

Q334 Chair: Where are they going to be?

Stephen McNally: I know in the city centre. Again, I am not familiar with all these. I am looking at Derry and Belfast particularly because that is where we are. I know Belfast has lots of planning permissions. One thing that is good, what you do very well in Belfast and in Derry as well, is that if planning permission is required, it is not that difficult getting through all the hoops to get it done, whereas in Dublin it is a lot more difficult. There are six or seven sites that I know of. A list came out last week with 20, but some of them will not be built or they are not viable or the cost of building them will be too high because of the nature of what they are at the moment. The cost of changing them into something else can be very high. But there is permission there and I have absolutely no doubt that there are more hotels going to be built in Belfast.

Q335 Chair: Tomorrow I am going up to Royal Portrush and they may well need more up there by 2019. Have they had any conversations with you about that at all?

Stephen McNally: We will be in touch with John and his team here. I think a lot of people will fly into Dublin because the direct route may come into Dublin and then come up, so we may get an overnight in Dublin on the way in or the way out. That is the way we will be looking at it.

Chair: Or to get them to Belfast International.

Stephen McNally: Particularly get them into Belfast International, we will get them there. But I was up in Royal Portrush and I did drive around, and it is only when you drive around through these rural areas you realise there are few hotels there compared with in the south again. Then it all adds up when I say 135 hotels in the north and 850 in the south. You can see we have a lot more density down there.

Q336 Gavin Robinson: It is the sort of place where seasonal closure could be a useful thing.

Stephen McNally: Yes. The seasonal bit is very difficult because there is no doubt there are three or four months in the north that you probably won't be driving around there or tourists will not be going up there. We see it ourselves in County Clare and some parts of outer Kerry and north of Donegal. It can be quite difficult to get people to come at certain times, but what the agencies are doing and what we are all working together on now is stretching the season. There is a tourist season in summer and it is just trying to get them to come a bit earlier and try to get them to stay a bit longer and keep these businesses open and viable and everything else.

Chair: That is very useful. Thank you very much indeed for joining us.

Stephen McNally: It has been a nice experience. Thank you.

Examination of Witnesses

Witnesses: **Mervyn Storey**, MLA, Minister for Finance and Personnel, Northern Ireland Executive, **Lorraine Fleming**, Head of Tourism Policy, Department of Enterprise, Trade and Investment, and **Tony Simpson**, Strategic Policy Director, Department of Finance and Personnel, gave evidence.

Q337 Chair: Thank you very much for joining us and congratulations on your recent appointment. I hope you find the job enjoyable. I think you will certainly find it challenging, but we would like to wish you well in your new position.

Mervyn Storey: Thank you.

Chair: Is there any opening statement you would like to make first?

Mervyn Storey: Yes, please. Good evening, Chair, and members of the Committee and thank you for the kind invitation to give evidence at today's session. I will endeavour to be brief as I know you want to proceed as quickly as possible.

I am aware that my predecessor, now the First Minister, Arlene Foster, submitted written evidence to the Committee's inquiry in December. Like Arlene, I fully support the case for a reduction in tourism VAT and I welcome the opportunity to explore the issue further with the Committee today. Tourism is one of Northern Ireland's key service sectors. Not only does it make an important contribution to our local economy in terms of revenue generation, but it also provides employment for some 43,000 people across the Province.

It is fair to say that Northern Ireland's tourism is an industry that is still at an early stage of development compared with the tourism offering and infrastructure of our neighbours in Great Britain and the Republic of Ireland. However, it is one with a huge growth potential and this is recognised in our tourism strategy that sets out the long-term goal to make tourism in Northern Ireland a £1 billion industry by 2020.

I welcome the Committee's inquiry, as for some time it has been argued, not only here in Northern Ireland but across the UK, that the 20% rate of VAT on tourism and hospitality-related products and services in the UK is hindering tourism development. It is well documented that the UK rate of VAT on tourism and hospitality products is one of the highest rates in the EU, placing the United Kingdom at a competitive disadvantage. In Northern Ireland this is particularly challenging, given that we share a long border with the Republic of Ireland where a reduced rate of VAT of 9% is applied to tourism-related activities. Evidence emerging from the Republic of Ireland shows the positive impact that a 9% reduced rate of VAT for the tourism and hospitality sector has had in growing tourism there and the positive impact that this is having on the Irish economy. A reduced rate of VAT in the Republic of Ireland has helped to drive employment in the tourism and hospitality sectors as well as stimulate activity. However, what is particularly interesting is that it has done so without placing a significant burden on the Irish Exchequer.

As the Northern Ireland Executive seeks to rebalance and grow the Northern Ireland economy, investment in growing our private sector, including the tourism sector, is key to achieving our objectives. Recognising the potential this industry has, the Northern Ireland Executive, through its economic strategy, is committed to supporting the tourism industry through continued investment in skills, tourism infrastructure and promotion and marketing. However, I firmly believe that a reduction in tourism VAT combined with ongoing investment in our tourism infrastructure can be a very influential mechanism through which to help support and grow our tourism economy further and improve the competitiveness of the industry as a whole.

Recognising the case for a reduction in tourism VAT, my predecessors, Arlene Foster, Simon Hamilton and Sammy Wilson, have pressed the Government on this particular matter. Unfortunately Her Majesty's Government has held a consistent line on the issue of tourism VAT, rejecting the case for a reduction on two counts. First, targeted VAT reduction on a regional basis is not possible under EU VAT law because a single rate of VAT for a particular good or service must apply throughout a member state. Secondly, a reduction in the UK tourism VAT would not, by Her Majesty's Treasury assessment, produce sufficient economic growth to outweigh the expected revenue shortfall. On that basis, the Government have confirmed as recently as July 2015 that they have no plans to introduce a reduced rate of tourism VAT, which is disappointing and I believe that we should continue to press Her Majesty's Government on this matter. Locally as an Executive we will continue to take whatever steps we can to support the industry and improve our tourism offering. However, I firmly believe that a reduced rate of VAT would be beneficial not only for Northern Ireland but also for the country as a whole.

Chair, those are my opening remarks and I look forward to having a constructive discussion with the Committee this evening.

Q338 Chair: Thank you very much. You have probably not had a chance yourself yet, having only just taken up the job, but is it your intention to discuss the potential cost or the potential benefits of a UK cut in VAT on tourism, because there does seem to be some difference of opinion of what the benefits and what the costs would be between your own Department and the HM Treasury?

Mervyn Storey: Yes. Obviously coming into post it was disappointing to read the correspondence that there has been over a long period of time. This has not just come about in recent days and I think the correspondence goes back as far as 2012, when the then Minister for Finance, Samuel Wilson, had raised this as a particular issue. The position still remains the same, as I said in my opening comments, as early as July of last year, when it was clearly stated that the Government does not believe that this is something that they want to pursue. I think that given the importance of tourism to Northern Ireland, if you look at the figures certainly for 2014 and even the figures that are emerging for the first half of 2015, we had 4.5 million visitors to Northern Ireland, which generated revenue of £751 million to the local economy. So tourism to Northern Ireland is a very important issue. Obviously I would say that, not only as the Finance Minister, but as a Member for North Antrim. I know my friend and colleague will probably dispute this in relation to the geographical issues, however, having the North Coast in your constituency, with the Giant's Causeway and all the beauty that that brings, and of course all politics is local.

Q339 Chair: If it could be divided up, your Department then would be confident in taking the initial hit because of the opportunities it might bring and the extra revenue you feel it would bring over a period of time? Your Department would be confident in your own figures and in the work you have done on this?

Mervyn Storey: I think we are confident in our own figures. Obviously with any decision that you make in relation to a reduction there is a cost that you will incur and clearly the Government have taken the view that they cannot do this. I believe, and I think it was the general consensus across the piece, that this is something that would benefit not just Northern Ireland, this would benefit the entire nation. I think that that is unfortunately what is being missed in terms of the attitude that the Government are taking in relation to this issue.

As far as the Northern Ireland take, in 2014 and 2015 our VAT take was something in the region of just over £3 billion, and that was the entire VAT take in Northern Ireland. Of that, we have tried to extrapolate what that was in relation to the tourist industry and we reckon that it was about £150 million to £160 million. Obviously that figure gives us some indication as to the range that we are talking about in relation to this issue.

Q340 Danny Kinahan: Congratulations on your new job. I was saying outside it is nice to see you at that end of the table, having sat in here often with him chairing and you sitting over there.

Mervyn Storey: This is now your opportunity.

Danny Kinahan: No, you know me. Certainly we take it on board for Westminster, and I think your point that you just made, that there are benefits to everybody, is something we have to battle for over there.

One thing from our meeting this morning when we were down at the Castle Ward, it was suggested to us that if we cannot change VAT, we could look at grants or similar offers that would balance it out for the hotels or the restaurants and others the other way. The struggle is we only have the block grant to play with here. Do you see any room for being able to do that?

> ***Mervyn Storey***: The challenge that we have in terms of the way in which we present and deal with issues in Northern Ireland is, as you rightly say, related to the block grant. If we make a decision then to have an issue looked at in a different way, we are competing with a variety of other issues. Clearly from the Northern Ireland Tourist Board's point of view we have endeavoured to ensure that, whether it is marketing or whether it is other help and support, that that is there for our industry, because we see it as being a key component part of the way in which Northern Ireland continues to move forward. I am immensely proud of where we are today as a country, in terms of having grown up in Northern Ireland at a time when it was extremely difficult to encourage people to come to visit the north coast or to visit Belfast or any other of the idyllic parts of our country. Yet now we are in a position where we see an opportunity.
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> If you take the comments that I made earlier in relation to the Republic, they have clearly demonstrated that the difficulty or the challenge to their Exchequer has not been what may have been predicted previous to their going down the route of reduction. They have seen a very good outcome as a result of doing that. As for what else we can do, I think it has to stay within the confines of the way in which we support, promote and deliver the tourist product. I think when we stray into the issue of making a decision on our own, remember this is not a devolved matter, this is an issue for Her Majesty's Treasury, this is an issue for Her Majesty's Government. That is why my colleagues in this post previously have said, "If we do this on a national basis, we believe that this would be a huge benefit to the tourist product that is offered right across the nation".

Q341 Danny Kinahan: I agree. Can I stray then into a different angle, the air passenger duty? We got very much from the evidence given last week that when the study was done on air passenger duty it did not talk to the airports, it was done by civil servants without talking to them. Would you look at and review that decision so that we can see whether air passenger duty—

> ***Mervyn Storey***: Just clarify the point in relation to who we spoke to and who we did not speak to, Tony.
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> ***Tony Simpson***: The research was undertaken, as you will know, by Ulster University. Ulster University, as I understand it, did speak to the airlines to gather evidence to inform their assumptions. There has been industry input into that research, so that is a point that I think the university would refute quite strongly, in terms of they have taken that on board in their analysis.

Mervyn Storey: I think in relation to APD too, it is disappointing that maybe the tone of what was said last week came across in the way that it did. That was just the day after I came into post, and I was very clear, even in the short period of time, that what I do not want to have is a sun subsidy. I think that we need to ensure, whatever it is we would do, it is clearly focused and clearly directed towards those strategic economic groups that will be to the benefit of our economy. I am not interested in having a situation whereby we are giving a subsidy to people to go on holidays and take their money out of Northern Ireland. I think that what we have seen in terms of the long haul that has been introduced, we took that decision and I think that was the right one to take. It cost us in the region of £2 million a year. But regrettably since that has happened we have had no other routes that have been introduced in the same focused way that would give the economic benefit to Northern Ireland. So that still remains an issue for us and our future plans must be based on the strategic premise of economic routes that will bring economic benefit to Northern Ireland.

Q342 Danny Kinahan: We talked earlier about Canada and Germany as two routes that are there knocking at the door but not happening. What are we doing or what will you do to help get those on? Because we really need to get them here. I think there are four or five other routes all knocking on the door as well. Can we have an air connectivity fund or something that helps do the marketing to bring them in?

Mervyn Storey: Yes, the Air Route Development Fund is the one that I am going to discuss with my counterpart, the Minister of Enterprise, Trade and Investment, to see how we can continue to put that fund together in a way that becomes a catalyst and becomes an attractive proposition to those that want to use and locate themselves in Northern Ireland. I remain focused in this job, as I did in my previous job in DSD, on ensuring that whatever it is we do in Government, we first and foremost do it for the benefit of the people of Northern Ireland, because ultimately they are the people who have put us in the position of trust. As you know, and the elected representatives in this Committee know, we have many requests for many things that could be done and there is a finite amount of resources. I need to be confident that in terms of the control of the public purse, first, that it can be done. That is the first thing, because we always have issues in relation to state aid and to the European Union and all of those things. You have to take all of those into consideration. But in terms of the issue in relation to the fund, I am going to meet with my colleague to see how we can continue to progress that.

Q343 Danny Kinahan: One more. It started off when Brian Ambrose said that we could not compete on the connectivity of Dublin. As a good old Irishman, I want to see us competing. From our previous questions today to others—this is very much Belfast International—road and rail contacts to airports are absolutely vital, and it is one of the things, just like VAT and everything else, to lift and bring people in. Is that something we can really look at to see how we get the rail opened and how do we get the roads improved?

Mervyn Storey: In terms of our infrastructure, that point remains a key priority for this Administration as it comes to the end of its mandate, and I have no doubt will remain a focus for the new mandate. Even in the House this week when I presented the 2016-2017 budget, we have included in there a key infrastructure project, because we believe flagship projects, as we have said they will be known as, will become part of ensuring that as we move forward in Northern Ireland we have underpinned that progress by key infrastructure projects. You are aware in your own constituency that has been an issue for some time in relation to the real connectivity. Those are ongoing issues that I think need to be brought to the attention of my Executive colleagues, and in particular the Minister with responsibility for DRD.

Danny Kinahan: Keep pushing them. Thank you.

Q344 Gavin Robinson: Thank you, Minister, for coming. It has been a busy week for you and I am sure you could benefit from reduction in tourism VAT and get a break. Can I just confirm, is EFP support for this campaign solely confined to tourism, or does it extend to all forms of hospitality as well?

Mervyn Storey: Clearly the focus has been tourism, but in terms of the break and the way that it was constructed in the Irish Republic, it had a number of elements. We would take the view that it would have a number of component parts to it, rather than just being solely driven by the tourism element. Of course the hospitality industry has a number of issues which it has raised and they have to become part of that consideration. Tony, do you want to elaborate in terms of—

Q345 Gavin Robinson: I asked that question because we have received evidence from a number of bodies, including UK Uncut and the Northern Ireland Hotels Federation and then some ancillary groups, and there does seem to be a distinction between their national campaign, whether it is for hotels, whether it is for every cafe and coffee shop and restaurant/bar. Obviously the differential has a huge cost implication.

Tony Simpson: Clearly a reduction in VAT for any of these associated services will, if it is passed on through reductions in price, hopefully increase the demand for those services and increase economic activity. We would certainly like to see that. The key question is the cost implications for the Treasury. Ultimately, as the Minister says, this is a matter for them to consider. If you are going to open it up for all these services, the cost to Treasury, as they would tell us, is about £9 billion to £10 billion. That drops to around £2.7 billion if it is a more restricted VAT cut. There is clearly a decision to be taken, but obviously we would like to see all steps taken through the tax system that will promote and stimulate economic activity.

Q346 Gavin Robinson: Sure. Then turning to the differential between what Treasury say and what UK Uncut say—and I think, Minister, you have adopted UK Uncut's figures for the differential—what is the best way to work with Treasury and convince them that they have it wrong? That is the first thing. What can we do as a Committee, an inquiry, to assist you in regard to that evidence? UK Uncut said to us that for the last three years they have been sharing correspondence, and every time they get a response, Treasury moves a little. How can we assist this discussion as a Select Committee to get some agreement or level of agreement on what the actual financial position may be?

Mervyn Storey: As someone who chaired a committee in this room for some considerable period of time, it is interesting to watch how a stated position—either in our case a

Department, or in your own case Her Majesty's Government—can be, over a period of time, convinced that there is merit in the case. While this campaign has been running, a number of campaigns have been running for a period of time and we can go back to 2012, when originally this issue was being raised by my predecessor. I think we need to continue the focus, and it goes back to the point that I made earlier, and that is around the benefit to the United Kingdom, the benefit to the regions right across the piece. I think that will be helpful.

Obviously our circumstances are slightly different because we neighbour with a jurisdiction that has a lower rate. Obviously we can see, because of the way in which they have conducted that process, the benefit that they have gleaned. That is why in our evidence to you we have included that, because we think that others can see that there can be a benefit, so it is a collective opinion. I am also aware that there was a recent debate in the House; I think it might have been Margaret Ritchie MP who had the debate in the Commons in relation to this issue. It is maximising our ability to be able to convince the Treasury, which is a challenge of its own. But I certainly intend to follow on from my predecessor and endeavour to convince the Treasury that there is merit in seriously looking at this issue within a United Kingdom context.

Q347 Gavin Robinson: Finally, Chair, I am sorry to say this is more a constituency inquiry rather than a ministerial position. We picked up this issue about the ability for Republic of Ireland hotels to have seasonal closure, but apparently you cannot do that in Northern Ireland. For cities it is an irrelevant consideration, but in Portrush, for example, it is an important factor. A lot of the main attractions close January, February, March and open for Easter. Do you think something like that would help sustain and develop new hotels in an area where they have had difficulty in sustaining winter business? As you know, there have been a number of liquidations in big hotels at the north end of your constituency. Would a variation that allowed seasonal closure and closure in the winter months help sustain tourism and tourism business within your constituency and in rural areas throughout Northern Ireland?

Mervyn Storey: It is an interesting idea. However, I have to say that in my previous post we just concluded a piece of work into Portrush, which is a very popular destination for tourists. It is not technically in my constituency: it is in County Antrim, but it is East Londonderry in terms of the parliamentary constituency. However, that is a semantic point, I suppose. That report concluded that we could still be the beneficiaries of a four-star hotel and a boutique hotel. The night economy in Portrush has made huge strides over the last number of years. In fact, now during the week, even at this time of the year, the restaurants in Portrush have seen an uplift. So obviously it is an issue that needs to be thought through, not in a way that disregards the needs of the hotel industry, but is very clearly focused around ensuring that you are doing something that is going to benefit them. I do not know what the Tourist Board's view—

Lorraine Fleming: Just to clarify, our certification requirement in Northern Ireland does require opening for 365 days. It is partly because we connect our certification system with the licensing laws, but it is still an issue that can be looked at. I think there is some merit in considering that for those who may wish to consider opening smaller accommodation maybe not based directly in Portrush, which might merit that six month or nine-month opening.

Gavin Robinson: Yes. I was just thinking the Ramada and the York went into liquidation at one stage and Me & Mrs Jones closed, and that is all from the last two years in a very small area. But thank you for that clarification.

Q348 Mr Anderson: I want to preface this by saying I am on your side in this. Where I come from our tourism might not be as good as yours, but it is getting there. The information we have had from a campaign called Campaign to Cut Tourism VAT, which I think your evidence is based on, claims if it went to 5%, you would increase the revenue by £529 million a year. What the Treasury say is it will cost £10 billion to £12 billion a year. Let us say we negotiate this: when you have £12 billion or £500 million, you are miles apart. Why is that the case?

> ***Mervyn Storey***: I will take that, because it goes back to the point that Gavin was making: how do we convince the Treasury? It does become a very challenging debate around how we can convince the Treasury of the figures, because there has been some discrepancy and some debate around some of the accuracy of the figures. We are reasonably content as to where we as a Department are in relation to the figures. Tony, do you want to—
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> ***Tony Simpson***: Yes. The first point is that there are a number of estimates out there. Our focus at the outset is very much on Northern Ireland. We face a very specific Northern Ireland issue in terms of the fact that we are the only part of the UK that shares a land border with the Republic and that lower rate. There are very specific Northern Ireland issues that exacerbate the problem here and perhaps increase the opportunities for a lower VAT cut. In terms of the estimates, very much the Treasury holds this information and owns this information. The industry have taken a number of different approaches, some based on surveys of members in terms of what they think the industry members might do if there was a VAT cut and the extent to which they would pass it on and that would stimulate activity.
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> I know there has been independent research conducted by Professor Blake and by Deloitte, but there are different methodologies that can be applied. The key challenge is having some transparency around the approach that Treasury would take in trying to arrive at these estimates and then being able to compare that with some of these other estimates. In the absence of that transparency in terms of the actual approach, it is difficult. There are always going to be slight variations, but it is difficult to fully narrow that gap without understanding that.

Q349 Mr Anderson: Twenty-four to one isn't a slight variation, is it?

> ***Tony Simpson***: As I say, there are differences. What we are hearing from Treasury is they are talking about the actual direct cost in terms of the VAT cut. In terms of the industry, they are then bringing into play the benefits that this is going to bring.

Q350 Mr Anderson: I am with you a million per cent on that. When I was a coal miner they told us, "We can close your coal mines and save millions of pounds". They forgot about the fact that they are still giving kids free school meals, people have not worked for 30 years and all this sort of thing. I am not arguing about it, but is there not a real issue that we need to have a consistent model between your Department and the Treasury to say, "Let us have a proper look at this"? Because I think you are right, I think this is a win-win in all the information we have had from everybody. I was just talking with my Clerks and they were saying that we have had an estimate from somebody in Northern Ireland that it could be just over 2,500 jobs and an £81 million boost to the economy, which is not huge money, but it is a lot better than not having that. How do we get that discussion going?

Mervyn Storey: I think that we all do. That was why I was very impressed when I saw that this Committee had taken this as a specific issue, because in some senses it is a no-brainer when you look at it. If you look at some of the statistics or the figures that the British Hospitality Association or the Northern Ireland Hotels Federation have produced, they have said a reduction in VAT on hospitality and tourism would increase revenue to Her Majesty's Treasury by £529 million over the first five years and £4.4 billion over the first decade. I think that those are issues that we have to fight therein in discussions with the Treasury.

Obviously you can appreciate in the year that has just passed my Department has had considerable contact with the Treasury, because we have not been able to get to a place where we have had a fresh start without having had a fairly robust relationship, yet a relationship that has given us an outcome that allowed myself, as the new Finance Minister, to stand in the Assembly this week and present a budget, which is a place where a lot of people thought we would never be. There are those difficult conversations that can be held. They are challenging, and my officials all know too well how difficult that can be. But I just received correspondence from the Chief Secretary to the Treasury this week, just in the last number of days, and in that is an invitation to meet with him very soon to discuss a number of issues. What I can say to the Committee is that I will take that opportunity to have this issue again placed on the agenda so that we have that discussion. I appreciate it very much, the correspondence that we received this week and that invitation given to us.

Q351 Mr Anderson: Can I ask—it might be Tony or Mervyn—the VAT decrease in the Republic coincided with a big drop in the value of the euro. Is it possible to calculate what the impacts of both of them were? Effectively, if things had remained the same and the VAT increases had gone down and you saw a big uptake, apparently you are going to be less competitive?

Tony Simpson: Do you mean in terms of the impact on prices?

Mr Anderson: Yes.

Tony Simpson: Yes, it would be possible to undertake that sort of analysis in terms of looking at the industry and the impact that that has had. I suppose the key thing is trying to get an understanding of the influence and how that has influenced behaviours and tourism patterns.

Q352 Danny Kinahan: There is only more question. In the future, given all we have been looking at in this Committee, can we see a tourism strategy that works much more with airports and the airlines in getting their input? The feeling last week from both was that there is more we can do in listening to them.

Mervyn Storey: Yes. What I do not want to have is a situation where it becomes them and us, because they play an integral part in ensuring that Northern Ireland continues to grow, not only in the tourist industry, but also in the important role that they play in relation to the economy across the piece, so it is not my intention to have a turf war with the airports. Yes, I made the comment earlier in relation to disappointment maybe about some of the comments that were made last week. However, I will continue, and I have no doubt my colleague in the Department of Enterprise, Trade and Investment, and the new Department that will come into operation after the election, the Department for the Economy, will continue to work with our airports, because they play a very important role in promoting and to the benefit of Northern Ireland.

Q353 Chair: Just touching on APD again, will that form part of your discussions when you meet the Treasury Minister?

Mervyn Storey: Yes. Again, it is an issue that I do not think we are going to see go away. I do not see it taking flight—excuse the pun—in terms of there is an issue out there. The Treasury's own figures clearly indicate the cost that it would have, and we have already moved on the long haul. We know what that cost is to us, but as I said in my opening comment around this, we must ensure that this is not about a sun subsidy, but that the focus is economic so that it gives us the outcome economically that ensures that it is the right thing to do.

Chair: No other questions? Thank you very much. It has been a very useful evidence session, and again we wish you well in your new position. Thank you for joining us.

Mervyn Storey: Thank you very much.