CONFIDENTIAL

BLUE SAIL

THE ISLES OF SCILLY VISITOR ECONOMY

A DISCUSSION PAPER

Tourism is the mainstay of the Islands' economy. After recent years of decline it appears to be at a crossroads. Can it maintain the momentum of the past 2 years or even bring back the glory days of yore? Or does it face long term decline and all the consequences that would follow? These are critical questions because tourism is so dominant, profoundly affecting the way of life on the islands and the viability of all its services and infrastructure.

To begin to answer the questions it is worth asking how tourism came to be so dominant, how it has moulded Scilly for better and worse, and what kind of society the people of Scilly really want, now and in the future.

THE LONG VIEW

A population dependent on tourism

Before tourism the islands depended on subsistence farming and fishing, pilotage and ship repairs, on the garrison and no doubt on a good deal of smuggling and wrecking. In 1921, just before the first Scillonian began to operate, the population was 1193 persons. Tourism boomed after the war and the population grew from 1625 in 1951 to c.2300 in 2014; it had doubled in a century and grown by 40% since 1951.

The size of population correlates to the size of the tourism industry. If the industry falters the population will fall, unless another source of income can be secured. Indeed in the recent downturn in tourism some businesses and jobs have been lost; in the accommodation and food sectors there were 312 jobs in 2009, the most recent figure was 277 - a 12% decline. The latest projection is that the population will age and the working population is likely to fall over the next 15 to 20 years.

By sustaining employment and the population level, tourism shapes the pattern of life on the Islands. Tourism

- generates income and business rates (as the proposed reform to business rates is introduced) which support services, administration and infrastructure
- sustains the transport links, which otherwise would be fewer and of doubtful viability

- supports the viability of the school and hence opportunities for families and young people to stay on Scilly, maintaining a healthier age profile
- generally supports the essentials of a modern comfortable existence - shops, restaurants, health services, building trades etc
- provides a job (and sometimes 2 or 3) for more or less anyone who wants one, so that unemployment is low.

On a more critical view

- tourism has locked Scilly into a seasonal economy with under-employment at other times and income levels below the national average
- transport and services of all kinds are sized to cope with the peak demand, and are over-sized and difficult to maintain at other times
- the visitor influx puts huge demand on ageing infrastructure of power, water and waste disposal
- Self-catering accommodation, second homes and staff accommodation take up many of the available beds causing high prices and a housing shortage
- The specialisation on tourism - more pronounced on Scilly than in any other UK destination - creates risks in a downturn and perhaps has blocked diversification into other sectors.

A peculiar society and economy

So tourism has moulded Scilly into a pattern of society and economy, unparalleled elsewhere in the UK, and into which it appears to be locked. The populace strives to keep that pattern going, despite the considerable stresses and drawbacks it brings, because there is no obvious alternative and for fear that if it collapses the whole fabric of society will collapse with it.

The peculiarities go further. The wildness and remoteness that so attracts visitors means almost everything has to be shipped in, driving up the costs of living and of doing business, and chipping away at the competitiveness of the islands. Construction and improvement of buildings is particularly expensive and adds further caution to investment decisions.

Another curious aspect of Scilly is that the community has (according to the LEP) the highest level of educational attainment in the whole of the UK, yet few of these well-qualified people actually use their higher skills in work and employment. They are not particularly motivated by economic gain but have made a lifestyle choice. They love the unique environment and rather laid-back atmosphere of Scilly and are not minded to sacrifice it on the altar of progress. This is borne out by ambivalent attitudes one hears about Tresco, which some regard as over-developed and 'manicured'. It is reflected too in the fact that 60% of the land area is managed by the Wildlife Trust, and the freehold of most of the islands belongs to the Duchy of Cornwall, meaning there are strong forces protecting the environment and character of the islands. For many it seems tourism is just the available means to keep body and soul together in a place they cherish, and not the focus of major business ambitions.

There is a consequent danger that society becomes polarised - not a danger unique to Scilly but one that is a threat to an effective visitor economy. The population is ageing with increasing numbers of retired residents. Many of these are comfortably off, perhaps with savings or money from mainland jobs in the past, and can afford the best houses. Younger workers, in lower paid jobs mostly, struggle with the cost of living and housing; they may find their prospects on the islands limited and a reason to leave with their families for better opportunities elsewhere.

With Scilly's economy so dependent on tourism, the decline in visitors has threatened its whole structure. The downturn was doubtless partly down to complacency of some operators, but there were other disruptive factors. Low cost air travel tempted visitors to places overseas with reliable weather, modern accommodation and the promise of fun and entertainment. The 2 week seaside holiday progressively gave way to multiple short breaks. Then the UK competition upped its game and has continually improved its offer; cities regenerated their historic centres, mounted big events, offered new shopping and a proliferation of cultural attractions fuelled by Lottery funding. The eating out experience has been transformed. Huge investment has gone into accommodation, for example into the phenomenally successful Premier Inn chain which means there are comfortable, spacious and affordable rooms almost anywhere in mainland Britain. Everything is viewable and bookable online with a couple of clicks and a credit card.

So Scilly has a dilemma. Some, probably most of its residents, do not want change that threatens the unique environment and their quality of life. Yet Scilly's offer and visitor experience do need to change, even just to survive. The more ambitious Scilly becomes, the greater the pressure for development and change will be. The choices ahead are driven by the realities of the marketplace and finance, but the responses will depend on what level of change people in Scilly are prepared to accept and pursue.

The Risks

We should acknowledge the risks facing Scilly. If things go wrong and are not well managed there is a danger of a tipping point and a spiral of decline. It is quite possible to envisage the following in the next recession, and some elements are already visible:

- A decline in visitor numbers increases the cost of travel and other services, leading to a further slide in demand
- Services become uneconomic and are reduced or impaired
- The case for re-investment in services, accommodation etc diminishes (perhaps seen already in the transport sector in delays in replacing ageing boats and planes)
- As numbers fall the sector loses capacity and diversity - serviced accommodation becomes self-catering, guesthouses sell up to meet local housing demand
- Fewer visitors means fewer jobs, and with less employment some residents - particularly the young and of working age - leave for the mainland. (Since 2001 the population of Scilly has grown older and the working population older and fewer in number - not of course unique to Scilly but perhaps more acutely felt here).
- A smaller resident population means still lower demand and higher prices for services

The need to decide

It is therefore essential that stakeholders decide what scale and shape of tourism they want to pursue, and to understand the choices and actions they will be required to take. What follows is a description of three possible scenarios and the choices they will require. There are some overlaps, and elements of each that could apply across the scenarios. But we nevertheless believe they represent three broad directions that tourism and the industry can choose to follow.

A. NEW MARKETS AND HIGHER GROWTH

Is it possible boost visitor numbers back and even beyond the level of 10 or 15 years ago? Could there be a virtuous spiral of more customers and more income stimulating re-investment in the product - in turn creating more employment, a growing population and a stronger base for the essential services on the islands?

There are a number of constraints and obstacles, including transport issues, to be removed to allow for growth; they are discussed below. But it is fanciful to imagine that 30% more visitors will come flocking back unless there is a catalyst and mould-breaker. It needs either new products or new markets - and possibly both. That is a stiff challenge for investment, development and marketing. It would also challenge the capacity of the islands' environment and its people. Rapid growth would require land to be released and many more houses built for workers and a larger population. The power, waste and water services would need the overhaul envisaged in the Smart Islands model. New accommodation and facilities for visitors on some scale would be required. None of this would be cheap or easy to do while preserving the essential character of Scilly.

Here are some ideas for evaluation - there are doubtless more:

- The Islands Futures report suggests a new **upmarket hotel on St Mary's** to attract new high spending visitors, on a year-round basis. It might have a leisure, sports and hospitality offer to broaden Scilly's range, such as for weddings, conferences, informal learning courses. Since the hotel on Tresco was converted to self-catering there is no large, upscale hotel. A full service hotel would keep more visitor income circulating in the Scilly economy. However, the investment case looks difficult while transport is not resilient, numbers are still recovering and the visitor season is so short. This could be an idea for 5 to 10 years hence when those problems are overcome.

- **A water and play centre:** the Center Parcs concept of a holiday village with simple, modern accommodation linked to indoor leisure activities has been a real success. Nothing on that scale is feasible on Scilly but hotels and others might form a joint venture to build and operate a water and play centre on St Mary's to improve rainy day options (and to be an asset for the local community).

- **A Wellness Centre** on St Mary's: a stylish and peaceful place for de-stressing, pampering, massage and treatments, where visitors could spend a day in all weather and seasons

- The Smart Islands concept envisages **Scilly as a laboratory** developing new ideas and trialling cutting edge solutions. Working in conjunction with universities it could become a place where its growing expertise is taught and shared with visiting students and business people, creating a high value enterprise and a business tourism strand largely lacking in Scilly. This presumably would require suitable spaces for seminars and possibly laboratory and workspaces, together with suitable accommodation. The market for this would need to be confirmed. The longevity of Scilly's advantage could be questionable as knowledge will inevitably be disseminated to other centres and universities with easier access and excellent facilities.

- The Smart Islands initiative might also be presented as a **technology attraction for visitors.** Some 'Curious Minds' visitor could be interested in anaerobic digesters, energy management and wave power experiments if presented intelligently - though this would doubtless be a small niche interest.

- **Alpha Territory:** most visitors to Scilly are not particularly motivated by luxury (see the market description in the following section), yet there remains a sizeable market for the very highest standards in accommodation and hospitality. Alpha Territory is the Mosaic tag for the wealthiest 2 or 3% of the population who live in the most sought after locations, often in the big cities, who are (or were) at the top in business and the professions. Historically Scilly has done well in attracting this market and Tresco's offer is well-tuned to it, but the proportion of visitors from this segment has declined, particularly since the end of the BIH helicopter service in 2012. The alternative of crossing on an aging ferry or less than luxurious small plane plus a boat transfer is not obviously appealing to this cash-rich and time-poor segment. The remedy - easier to describe than to achieve - is re-instatement of a (possibly private) helicopter service or air service from London or conceivably a smaller and fast boat direct to Tresco or other destination.

- **Seasonality:** There is substantial spare capacity in the shoulder months, and the operating season is reported to have shortened from around 31 weeks to about 27 or 28 weeks, while the Christmas period has declined in importance. Yet 69% of visitors surveyed in 2015 said they would consider an out of season holiday in Scilly. If Scilly is to achieve a big increase in visitor numbers it would be altogether better to fill this capacity and spread the load than to cram more visitors into the peak season. The VAT threshold will be a disincentive to extending the season for some smaller and lifestyle businesses, so it may fall mostly to the bigger businesses to drive progress on spreading and extending the visitor season. For them the short season is a major deterrent to investment and development. It needs a strategy agreed through IP to ensure essential services of all kinds keep going, and that special events, offers and pricing are used effectively.

- **Awareness:** As a small destination Scilly will always have to fight for profile and awareness. If it is going all out for growth it will need to re-double its promotional effort hand in hand with its product development. That would mean a higher spend on marketing, on energetic participation in possible national tourist board campaigns and on maximising media interest by for example, exploiting the coming TV series about the adventures of the Scilly Sergeant, to promote locations just as the Chilterns have promoted their association with Midsomer Murders. Scilly's resources will always be constrained so the key requirement is for everyone, led by IP, to tell the same story and build the Scilly brand even as they sell their own particular product or experience.

The choices to be made

Scilly and the tourism industry must accept that going for growth means going with conviction for development of both product and marketing, and that there will be investment risks. It will entail:

- A willingness to countenance development on a scale that makes a difference and may challenge planning and environmental policies
- Substantial investment in visitor accommodation of all kinds, by new build, extension and upgrading, including quality hotel capacity
- Improvement in the offer: e.g. investment in indoor leisure and play provision on St Mary's, in events, activity courses, nightlife
- Major collaborative effort led by the major players to extend the visitor season and improve the shoulder periods, ensuring sufficient transport, eating options and things to do are in place
- Essential investment in the upgrading of power, water and waste services
- Evaluation of the Scilly Laboratory concept
- Substantial investment to improve transport resilience, capacity and comfort which could include a new helicopter service or air connections to London
- Construction of sufficient new houses to accommodate additional workers and a growing population as well as meet the current shortfall
- Much greater capacity and resource in IP to broker and lead collective action, and raise Scilly's profile substantially, meaning more financial backing from members

B. BUILDING MOMENTUM

The Islands Partnership and member businesses have done well in the past 2 years to reverse the declining trend of recent times. There has been some modest but welcome growth in the Scilly visitor economy. What would it take to maintain that incremental progress and make the visitor economy more resilient against future shocks? And going further, how might the momentum be accelerated, not necessarily with many more visitors but in ways that bring more value to the islands and do not undermine their unique character and environment?

In the first instance, to maintain the current momentum, Scilly would need to

- remove as far as possible the constraints that get in the way of visitors coming to and enjoying the islands.
- respond to the changing needs and preferences of key target markets, raising the quality and value of the offer
- Iron out the niggles that devalue the visitor experience
- Strengthen the capacity of the Islands Partnership

Transport

Transport is seen as the biggest and most pressing constraint on the visitor economy. Resilience, capacity, connectivity are fundamental for tourism. Unreliable transport is a deterrent to investment on the islands as well as a barrier and cause of worry for visitors.

Recent investment in the runways and quays has improved things but there is still much to do. Public funding will continue to be rationed yet there is a strong case for Scilly to make investment in transport its first priority. The recent private sector investment in a replacement freight ship for the islands and the potential return of a helicopter service are to be welcomed therefore.

Transport issues are of course complex and impact on many aspects of island life. The Islands Partnership surely has a role to articulate the business view of the issues and help shape the way forward with partners including the IOSSC, the LEP, the Isles of Scilly Council, the Duchy and Government.

Resilience is the fundamental issue and is closely related to **capacity**. Actions to consider are:

- Proceeding with the EGNOS system to provide some improvement to air service reliability.
- Sunday flying - to add capacity, flexibility and convenience for visitors, and as the basis for a stronger short break offer
- The introduction of more modern planes if they could improve resilience and capacity as well as passenger comfort
- Maintaining the choice of air routes and improving connections to them from UK cities, London especially
- Configuration of Scillonian 4: taking into account the trade-offs between size, speed and comfort and the ability to do double sailings at peak times.
- Investigating the feasibility of other water borne transport that could operate economically in winter
- Assurance is needed on the future of the airport, for which there appears to be no alternative operator.

Connectivity is a further key concern. Poor connectivity means slow journey times which are a big disincentive when so much of continental Europe is reachable from the UK in a couple of hours.

- Connections and timetables for onward flights and trains need to be optimised and ideally made simple by through ticketing
- Transit from the airport or quay to destinations in the islands could be through-ticketed when flight or ferry bookings are made
- Inter-island travel seems complex to the uninitiated; payment arrangements and tickets valid for only one of three separate operators is archaic and inflexible. Electronic ticketing via a 'Lobster Card' should not be overly complex to arrange and would encourage greater use of the boats.

Responding to key target markets

Scilly doesn't appeal to everyone and needs to be sure it is looking after its most important customers. Unfortunately, its visitor profile appears to have become narrower because it is losing customers disproportionately from certain types and segments. Comparison of the Mosaic profile of visitors undertaken by Blue Sail in 2010 and a similar profiling undertaken by IP in 2015 shows that Scilly has been losing younger visitors - the **under 17s** as part of a **family group** of parents and/or grandparents, the **18-34s** and the **Liberal Opinions** (Mosaic Group O), young people including students and young professionals, many of whom are environmentally aware. These are all important segments for Scilly and it is particularly worrying if they don't become the next generation of repeat visitors.

It would be timely to research what sort of holiday experience these younger visitors really want. For instance the style of accommodation and range of things to do may be an issue. New-build accommodation designed for the family market at a (relatively) affordable cost, together with more of glamping and yurts should be considered. More bookable water-based activities and courses, events and festivals, even outdoor cinema, theatre and night club could be considered given that nightlife is accorded the lowest satisfaction level of all aspects of the visitor experience.

The bedrock of Scilly's industry are its **comfortably off, middle-aged or older visitors**. Interestingly their profiles (from Mosaic) include many who have strong roots in their own rural communities, and people not much interested in style of dress or in brands - a reflection perhaps of the ethos of Scilly. Most will not be looking for luxury as much as for accommodation (and beds and bathrooms) as comfortable as their own homes, well equipped, fresh and coordinated in presentation. They expect value for money and good standards more than low price. If Scilly can argue that improvements to design, comfort and facilities in accommodation are eligible for business support grants it should do so.

Among this clientele are baby-boomers - richer, fitter, better educated and travelled than their parents. They are active, always learning, inveterate short break takers and interested in courses bookable before they travel. They look for local food and drink and are interested in its provenance - food and drink festivals appeal particularly.

To retain and grow these key segments will require **ongoing investment**. Scilly will never be a cheap destination; the perceived quality of its product has to justify the premium price. There is no one-off fix; the competition will not cease to innovate and improve, and nor can Scilly.

The niggles

The niggles for visitors are well-known - such as the lack of acceptance of credit cards, poor coordination for booking different holiday elements, poor signage and way-marking of routes. The traffic in Hugh Town can be intrusive and the public realm is still patchy though improvements have been made. These are essentially management issues that should be soluble with a collective will.

Capacity of the Islands Partnership

The Islands Partnership will need to lead and coordinate ever more effective marketing and information in order for Scilly's voice to be heard and the current momentum strengthened. It will need the support and collaboration of the members that matches their ambitions for growth.

Accelerating the momentum

If Scilly is to be more ambitious about growth, without undermining the essential character of the islands, it has to use its existing assets more productively. It will also need some new investment in up to date facilities, including some of the investments outlined in Option A above. Essentially it will require

- a move up the value chain to generate more income, meeting the needs of well to do customers
- a stretching of the visitor season to make better use of capacity

To attract and retain higher spending visitors Scilly should consider

- Reintroduction of a helicopter service
- Higher standards of comfort, design and service in existing hotel accommodation
- The possible development of a new boutique hotel in a favourable location on St Mary's
- A wider choice of good restaurants
- A Wellness Centre
- Staff development and retention: higher service standards depend on staff capabilities and underline the need for better accommodation for staff and development of career opportunities

Extending the season will require coordinated effort to ensure services, restaurants, cafes, accommodation and activities are available early and later in the year. A strategic approach to the events programme should support this aim.

All this needs to be backed by increased capacity of IP and support of its members in awareness- raising and strengthening the Scilly brand.

The choices to be made

The local Industry must accept the recent recovery will not necessarily continue of its own accord and that Scilly needs to put right basic weaknesses and meet changing customer preferences. That will mean action to

- Ensure that transport is as reliable, convenient and comfortable as possible
  - investment in Scillonian 4
  - Sunday flying
  - More modern planes if possible
  - Resolve operation of the airport
  - Better connectivity and ticketing with mainland and inter-island transport
- Invest continually in accommodation, events and activities to attract families with children and young adults who will become the next generation of Scilly enthusiasts
- Look after the middle-aged and baby boomers
  - by continuous improvement in comfort and presentation of accommodation
  - by developing interesting things to do, bookable courses, festivals and events
- Resolve the niggles - credit cards, traffic, signage etc

To build momentum and growth further....

- Attract and retain higher spending visitors by moving up the value chain
  - Investment in up-to-date facilities such as a boutique hotel and wellness centre
  - More choice of high standard accommodation and eating out
  - Reintroduction of a helicopter service
- An extended visitor season
- Staff development and retention including better staff accommodation
- Greater resources for IP and backing from the membership to lead and promote Scilly effectively.

C. A MANAGED RETREAT

What would happen if Scilly decided to let tourism retreat to a more modest level, where it no longer dictated the shape and style of Island life?

One can imagine how the situation could arise. It might be by decisions to prioritise public investment to other purposes and to promote a new industry. Or a major recession or increased costs would bring on commercial decisions to withdraw or downgrade transport, hotels and restaurants or to sell guesthouses for housing etc. There would be some very painful business failures and much of what makes life civilised and attractive - the activities, shops, restaurants and pubs would be at risk. That is akin to the 'spiral of decline' mentioned before.

Arguably there might be some positives. The population would fall, a horrid experience for those displaced; but it would be more aligned to the resources of the islands. The housing crisis would be solved and property would be more affordable, perhaps mitigating the population fall. The islands could be more green and self-sufficient in power, waste disposal, water and sewerage. More of the islands' food could be locally produced. There would be less pressure on the natural environment. Scilly's marketeers used to refer to the 'Island Paradise', a term belied by its poor infrastructure and heavy carbon footprint. Perhaps it could live up to that promise in future.

The big questions would be

- Is there a sustainable model for tourism at a lower level and what would it look like?
- could the Scilly economy and services adjust to a less intensive level of tourism?
- is there a viable alternative industrial plan?

Sustainable tourism?

Transport once again seems the critical element. Current equipment and infrastructure are designed to deal with peak visitor demand. With fewer visitors' and residents' journeys it would have to change. Could a smaller ferry operate economically all year round? Is there a viable operating model for an airport and air service with say half the current level of business? Can one assume that as a backstop the Government would maintain an airlink to sustain medical services?

As volumes fall, prices for everything are likely to rise. Quality expectations may rise too, with lower level hotels and B&Bs under most pressure, and probably squeezed out. The well-to-do market interested in nature and community would probably appreciate the 'island paradise' vibe and some would continue to come. The young and the families would be less likely to do so.

The trend from serviced to self-catering accommodation might accelerate under cost pressures, difficult transport and lower working population. Becoming primarily a holiday let destination would scupper Scilly's chances as a short stay destination and more of its tourism income would disappear from the islands to property owners on the mainland. Residents might however profit from the Airbnb revolution by letting their own homes for peak period holidays.

With a diminished tourism industry the resources for IP would dwindle too. Experience elsewhere of destination organisations under financial pressure is typically a retreat into a purely marketing and information role. IP's ability to intervene and coordinate the visitor economy, to guide on product and standards and influence external bodies would be at threat if the major players were not willing or able to sustain their current support for its role.

The wider impact

Despite the 'positives' above, the impact on the Scilly economy and society would be severe:

- Lower local tax revenues and support from Government on a per capita basis to maintain the islands' administration and services - fire, coastguards, environmental management, health, water supply etc
- Less custom and revenue for energy and waste disposal, undermining the case for investment in the Smart Energy programme
- Inter-island transport less viable and may be reduced
- Freight services could run less often, impacting on fresh supplies, shops and businesses
- Fewer pupils in the school, raising questions whether the secondary curriculum can be delivered on the islands, though the Government is more or less obliged to support education of children wherever they are.

Diversification?

Are there viable new industries for Scilly to replace some tourism employment and revenues? It's beyond this brief to devise an alternative business strategy, but the Islands Future report points to opportunities in the Smart Energy concept and in the digital economy. These are knowledge-based prospects that minimise the islands' location and transport disadvantages. With high-speed broadband many lower level, web-based services and design jobs could perfectly well be undertaken remotely. However, to develop a centre of leading technical expertise would require a critical mass of knowledge and experience. That is quite a challenge when few people in Scilly have experience outside tourism-related fields. The partnerships with Hitachi, universities or others would be key to importing expertise and training local people.

Diversification to other industries could weaken tourism further. Scilly's resources are very limited and if it lost its focus on tourism those resources, including key people and talent, could drain away, leaving the visitor economy less dynamic and less able to invest and adapt.

In Summary

Even after a decline, tourism wouldn't disappear entirely. As long as some level of transport continues hardy visitors will come and locals will provide for them. It is not clear that there is an alternative source of equivalent numbers of jobs, so tourism is likely still to be the main source of employment ten and twenty years from now.

The choices to be made

If Scilly and its tourism industry chooses not to invest and improve, there is a danger the spiral of decline will set in sooner or later. At that point, with a lower level of tourism the economic and social prospects for Scilly are poor. By default, Scilly would then be into damage limitation and pursuit of alternative business. It would need to

- Downscale the transport services and equipment to match demand, but find ways to maintain essential links, with external guarantees if necessary
- Likewise seek external support for health, education and other essential services
- Invest in alternative business sectors, e.g. prioritising support for business start-ups and incubators, development of skills and business premises
- Redefine IP's role in relation to new business sectors, and ensure it has funding for the basics such as coordinated pre-visit and during-visit information