

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3)
OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2007/2008 AUDIT OF VISITSCOTLAND

1. I have received the audited accounts of VisitScotland for the year ended 31 March 2008. The auditors' report on the accounts is not qualified but I have decided to issue this report to bring to the Parliament's attention events surrounding VisitScotland's investment in eTourism Limited, a joint venture company responsible for the operation of a Scottish tourism website (www.visitscotland.com) and call centre.
2. I submit these accounts and the auditor's report in terms of sub-section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under sub-section 22(3) of the Act.
3. In 1997 VisitScotland and the former area tourist board network began developing a tourism consumer website. The website aimed to be an all-Scotland database of tourism products and services and a system for the on-line booking of accommodation. Initially, development work was undertaken internally within VisitScotland, but internal cost constraints and a lack of relevant skills became evident and, in 1999, a business plan was prepared to outline options of securing external expertise and investment and reducing risk to the public sector. This plan identified the need for significant additional and ongoing resources and expertise to ensure that the website met its full potential and the needs of consumers.
4. VisitScotland and the area tourist board network approached the Private Finance Initiative Treasury Taskforce (now Partnerships UK) in 2000 and it was agreed that the best way forward was to involve the private sector through a public private partnership. Partnerships UK agreed to co-sponsor the public private partnership with VisitScotland and the area tourist board network.
5. In November 2001 the Scottish Executive approved VisitScotland's request for additional funding to allow VisitScotland to invest £1.85 million in the public private partnership vehicle. There were no further cash investments made by VisitScotland after this initial investment. The Scottish Executive also provided an additional £1.25 million to be used for project management costs associated with establishing the joint venture public private partnership.
6. Following a European tendering and procurement exercise, both SchlumbergerSema, who would provide the technical solution for the website and call centre, and Partnerships UK invested in the joint venture company – eTourism Limited – created specifically for the purpose of operating the website. VisitScotland initially had a 25% interest in the joint venture company.

7. Outline and full business cases were prepared to document the rationale for the joint venture. The full business case indicated that the joint venture could generate annual turnover of £9 million and post-tax profit of £1.5 million per year from the fifth year of operation. The business case was presented to the former Scottish Executive, who approved the joint venture partnership on 29 April 2002.
8. At 31 December 2007 eTourism Limited's financial statements reported cumulative losses of £12.4 million, including £1.3 million of losses incurred in the year, and net liabilities of £6.3 million at 31 December 2007, an increase of £1.3 million (26%) from net liabilities at 31 December 2006. VisitScotland consolidates one third of the financial results and net assets of eTourism Limited in its group accounts, resulting in the inclusion of £0.4 million of net expenditure and £2.2 million net liabilities in VisitScotland's accounts for the year ended 31 March 2008.
9. VisitScotland makes annual payments of £1.2 million to eTourism Limited in respect of services provided under the terms of a concession agreement such as brochure distribution, information provision and website hosting.
10. Following consideration of eTourism Limited's financial position and forecasts, VisitScotland management took the decision to reflect provisions for non-recovery of the original loan of £1.85 million and unpaid interest due on that loan of £900,000 in its 2007/08 accounts. Consequently, VisitScotland's reported a deficit of £2.6 million against its financial target set by the Scottish Government.
11. VisitScotland is currently considering alternative business models to secure the future sustainability of eTourism Limited and its website operations.
12. I have asked VisitScotland's external auditors to continue to monitor developments, including financial implications of decisions made in relation to the sustainability of eTourism Limited.



Robert W Black
Auditor General for Scotland

17 December 2008