



OFFICIAL REPORT
AITHISG OIFIGEIL

Rural Economy and Connectivity Committee

Wednesday 21 December 2016

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 21 December 2016

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RURAL ECONOMY AND CONNECTIVITY COMMITTEE

15th Meeting 2016, Session 5

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

COMMITTEE MEMBERS

*Peter Chapman (North East Scotland) (Con)

*Mairi Evans (Angus North and Mearns) (SNP)

*John Finnie (Highlands and Islands) (Green)

*Rhoda Grant (Highlands and Islands) (Lab)

*Jamie Greene (West Scotland) (Con)

*Richard Lyle (Uddingston and Bellshill) (SNP)

*John Mason (Glasgow Shettleston) (SNP)

*Mike Rumbles (North East Scotland) (LD)

*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Mike Baxter (Scottish Government)

Colin Cook (Scottish Government)

Fergus Ewing (Cabinet Secretary for Rural Economy and Connectivity)

Simon Hodge (Scottish Government)

Jo O'Hara (Scottish Government)

CLERK TO THE COMMITTEE

Steve Farrell (Clerk)

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Rural Economy and Connectivity Committee

Wednesday 21 December 2016

[The Convener opened the meeting at 10:02]

Decision on Taking Business in Private

The Convener (Edward Mountain): I welcome everyone to the Rural Economy and Connectivity Committee's 15th meeting in 2016. I remind everyone present to please switch off their mobile phones. No apologies have been received.

Under agenda item 1, the committee is asked to decide whether it is happy to take item 4 in private and whether its draft budget report should be considered in private at future meetings. Do we agree to take those items in private?

Members *indicated agreement.*

Draft Budget Scrutiny 2017-18

10:02

The Convener: Item 2 is evidence from the Cabinet Secretary for Rural Economy and Connectivity on the Scottish Government's draft budget for 2017-18. I welcome Fergus Ewing, the cabinet secretary, and, from the Scottish Government, Mike Baxter, director of finance at Transport Scotland; Colin Cook, director of digital; Jo O'Hara, the head of Forestry Commission Scotland; and Simon Hodge, the chief executive of Forest Enterprise Scotland.

We have an incredible number of questions, cabinet secretary, so I would be grateful if you could help us to get through them all by giving short answers, but if you would like to make an opening statement, please go ahead.

The Cabinet Secretary for Rural Economy and Connectivity (Fergus Ewing): Good morning, everyone. I am delighted to be with the committee and I welcome the chance to give evidence on how, in particular, my portfolio's spending helps to meet the Scottish Government's manifesto commitments and on how it will assist in delivering our climate change plan, which I believe may be the focus of the committee's budget scrutiny.

Our overarching aim is to grow the rural economy and support wider connectivity. We will do that by delivering a reformed common agricultural policy, building up our world-class food and drink and forestry sectors, building growth in our marine and coastal communities, improving digital connectivity—particularly to remote and rural island areas—and improving physical connectivity and economic productivity.

The budget for the rural economy and connectivity portfolio is increasing from £2.6 billion in 2016-17 to £2.8 billion in 2017-18. I will focus on three aspects of it in turn. First, on the rural economy, we will continue to deliver the reformed common agricultural policy to obtain the best results for Scotland's rural economy, environment and communities. We will also continue to support the fisheries, aquaculture and fish-processing sectors by maximising the benefits of the new European maritime and fisheries fund to create and safeguard jobs in remote rural areas and to develop and sustain markets for premium Scottish seafood products.

I have listened carefully to forest industry leaders, and I believe that the framework that we are establishing with the budget will help to drive the growth in the sector that we all wish to see in the future. First, the budget supports the vision of seeking a step change in the area that is planted

by increasing the funding for forestry grants to £40 million. That is part of achieving our programme for government commitment to look at ways in which we can meet the planting target of 10,000 hectares per annum. Secondly, we will continue to support the strategic timber transport scheme by facilitating the sustainable transport of timber in rural areas of Scotland and delivering benefits for communities and the environment. Thirdly, the budget will help to address unused and derelict land through the use of trees. In that regard, Forest Enterprise Scotland's work on the national forest estate will play an important role.

On digital connectivity, the 2017-18 budget is the first to be part of a multiyear investment in broadband towards the delivery of our commitment in the programme for government to extend superfast broadband access to 100 per cent of premises across Scotland by 2021. The budget that we have allocated will fund the final phase of the £400 million digital Scotland superfast broadband programme, which is on track to deliver fibre broadband access for at least 95 per cent of premises by the end of 2017. The budget will also support the initial phase of the reaching 100 per cent programme. Next year, we will launch new procurement activity to deliver new public and private investment that is focused on bringing superfast broadband to the hardest-to-reach premises—those that will not benefit from the digital Scotland programme.

Transport infrastructure is a key area in which improving connectivity between our cities, our rural communities and the centres of economic activity will be vital to boosting productivity and competitiveness. What better example could there be than the construction of the £1.35 billion Forth replacement crossing, which is scheduled to open to traffic in May 2017? We will also continue our significant investment in Scotland's railways to support a safe, reliable and high-performing railway. For example, electrification between Glasgow Queen Street and Edinburgh Waverley will be completed, and new electric services are due to start from July 2017.

Significant investment will continue to be made in the M8, M73 and M74 motorway improvements and the Aberdeen western peripheral route, which are scheduled to open to traffic during the spring of 2017 and the winter of 2017 to 2018 respectively. Our contribution through support for air and ferry services, including the building on the Clyde of two major new vessels for routes that serve Arran and the Western Isles, will help to support plans for more autonomy for our island communities.

As part of our efforts to meet our climate change targets, we will continue to support efforts to reduce the carbon emissions from the transport

sector. We will agree the actions to reduce the carbon emissions from transport that are to be set out in the climate change plan. Our approach will be to reduce the need to travel, to promote mode shift to more sustainable transport options, to increase transport network efficiencies and to focus on supporting the development and uptake of new technologies through, for example, an extensive electric vehicles charging network, successful green bus funds and hybrid ferries. That represents investment of more than £230 million on top of public transport funding since the future transport fund was launched in 2012.

In conclusion, the 2017-18 budget represents a robust plan to develop a more inclusive economy that works for rural communities and for businesses. I look forward to answering the committee's questions.

The Convener: Thank you, cabinet secretary.

Gail Ross (Caithness, Sutherland and Ross) (SNP): Good morning, cabinet secretary. You mentioned in your opening statement the increase to the budget for your portfolio, which we welcome.

I will kick off with forestry. On 23 November, Stuart Goodall from Confor told us that, to reach our planting targets, we would have to go up from planting 10,000 hectares a year to planting 13,000. Has enough money been allocated to that? In the budget line, there is an increase in cash terms of £200,000 but a real-terms decline of £700,000. Can the Forestry Commission continue to deliver all its requirements? Is that manageable? If any efficiencies are to be made, how will they be found?

Fergus Ewing: That is an extremely important matter for all of us who are concerned with the rural economy. The forestry sector as a whole sustains 25,000 jobs, and its gross value added is around £1,000 million. It is important to take that big picture, because forestry has in the past been seen as a sort of Cinderella industry. It is a fair point to make that it has perhaps not received quite the same focus as farming and fishing. Those of us who have visited sawmills in our constituencies—I have visited Gordon's and BSW Timber in my constituency; in fact, I live less than 1,000 metres from BSW's Boat of Garten plant—know that such industries are highly innovative and use innovative technology. They are as modern as any other industry.

It is absolutely clear, as the industries tell us and as Stuart Goodall mentioned, that to meet their requirements—not in the next five years, but in the next 10, 15 and 20 years—for the supply of timber, there needs to be a step change in the increase in plantations of productive species in particular. That means meeting our targets, which we are not

doing. I am determined that we should do that, and there are a number of means by which we need to do it. Not all are financial, but some are. That is why I set out in my opening statement the commitment that we have made to providing substantial funding to assist plantings.

Another part of what we are doing is to assist further the timber transport fund, because, in my part of the world and in Gail Ross's part of the world, part of the problem is that assets are stranded—they are inaccessible. Because of the remote location of forests and because of transport problems, in some cases it is difficult to harvest mature forest, so the timber transport fund is being maintained.

As well as providing funding for planting and the timber transport fund, we are looking at improving procedures by streamlining them. Jim Mackinnon, who was formerly the chief planner for Scotland, has recently produced a report that has been made public and, I believe, conveyed to the committee. It sets out how we can streamline processes to make sure that they are swifter and easier to navigate. I praise the work of the Forestry Commission and Forest Enterprise in doing that.

In place of a specific answer on some of the budgetary aspects, I have given an overview, which I hope is useful. Forestry is an extremely important issue, so please bear with me in taking a little time to set that out. I feel passionate about the issue. Perhaps Jo O'Hara of the Forestry Commission could help with answers on specific budgetary matters.

The Convener: Before Jo O'Hara speaks, I would quite like to drill down into the figures a wee bit. Peter Chapman has questions that might help us to do that.

Peter Chapman (North East Scotland) (Con): I welcome everybody and, before I get my fingers rapped again, I declare my registered interest as a farmer.

I would like to drill down, as the convener said. We have been told that we are well behind the planting targets and that, if we are to meet the target of 10,000 hectares a year, we need an extra £15 million in the budget. If we are to catch up on the backlog, we need to plant 13,000 hectares a year, and for that we need about an extra £29 million in the budget. That is to support the private sector in planting woodlands.

We do not see such figures in the budget, so how will you achieve the target, which we have already missed for a number of years? We already have a backlog to catch up on. That is a specific question.

10:15

The Convener: Will you answer that, cabinet secretary?

Fergus Ewing: To save time, I am happy to pass the question to Jo O'Hara.

Jo O'Hara (Scottish Government): We have failed to meet the target, as we recognised when I was in front of the committee's predecessor in 2014. We recognised under the past Scottish rural development programme that the structure of the grants that we were applying was not attractive enough for people to bring land forward for planting. In those years, we were handing back a significant amount of budget at the end of the year, because the demand was not there. We have never turned away a grant application because of a lack of funding. The budget is very demand led.

We introduced a new grant scheme in 2014. We listened to what the sector told us about where we had got the detail wrong and what we needed to do to have more planting applications coming forward. The sector told us that we needed to change the grant scheme and that the process for approval of forestry applications was becoming burdensome and putting people off. We addressed the grant scheme under the previous CAP and introduced a new one.

Because forestry is a long-term business, people who are making land-use decisions need to take their time and think before they lock the land up, potentially in perpetuity, in a new land use. Whenever we change to a new forestry grant scheme, we always see a dip—that happens in England and Wales, too—before we see the overall impact on applications. I am pleased to say that, since the summer, we have seen a substantial and sustained increase in applications as a result of the change in the grant scheme. However, they are not quite at the level that is needed to deal with the backlog. We believe that that level is coming and that the work that Jim Mackinnon has done to make the application process more straightforward will again bring more people forward.

I recognise the numbers that Stuart Goodall gave the committee, which we have discussed. My first target is to get to 10,000 hectares as a really important milestone. We have looked at the applications in the pipeline that have come forward over the summer. We are getting more large commercial schemes, which are cheaper in terms of grant. The amount of grant that we pay depends on the type of forest. We think that we will get around 8,000 to 8,500 hectares of planting in 2017-18. That is the basis of the budget that we have and that is why the number is increasing from £36 million for forestry grants. Additional

land—650 hectares—that will be planted by Forest Enterprise is not part of the grant scheme. The figure that is in the budget was produced by anticipating demand, as we do every year. If demand is not there, we cannot pay out money. That is the background.

In subsequent years, with the impact of Jim Mackinnon's report and the energy that the Government is putting behind woodland creation, we have been seeing much more interest coming forward. All my teams are working flat out as a result. We expect to see that build and to see the step change this year continue into next year.

Peter Chapman: May I drill down a bit more? Over the past number of years, it has been mostly broad-leaved trees rather than conifers that have been planted. Those are not the forests that the sawmills require to keep them in business. Can we be assured that there will be a switch to more productive conifer forests in the near future? That is important.

Jo O'Hara: That was exactly what we did when we redesigned the grant scheme. The applications are about 75 per cent productive, so that change is coming through.

Peter Chapman: That is good.

The Convener: Just before we move on to the next question, can I clarify the planting targets in my mind? Are you saying that the target that we had set of planting 100,000 hectares by 2022 will, by your estimation, not be achieved?

Jo O'Hara: I do not know what is going to happen beyond next year. I suspect that we will be at about 9,000 hectares in 2017-18 on the basis of current demand. The impact of the approvals process and the wider impact of the CAP and Brexit on people's land-use decisions cannot be predicted. I do not want to say at this point where we will be with the overall target.

Fergus Ewing: The progress that has been made is extremely encouraging. It is important to pick up on Jo O'Hara's point that, in previous years, there has not been the demand. Therefore, part of what I have to do is to stimulate interest in investment in our forestry so that that appetite or demand increases.

As Mr Chapman will know, the signs are extremely positive. We are looking at additional investment from various sources—from landowners, possibly from pension funds and from communities. I would like communities to have more opportunities to own a stake in forestry, and so would many investors and landowners. We have seen that in renewables, so why not have it in forestry, if we can?

We need to stimulate the appetite, and I believe that we are doing that. The figure of 8,500

hectares coming through shows a fairly substantial increase on the previous year, and it is clear from the two forestry summits that I have already held and from my engagement with the non-governmental organisations that there is a big consensus across the whole community, including among those who are concerned to protect our precious environment.

The other thing that I would say is that the figures are quite stark. The recent WWF report—it was published a couple of months back—opined that unless we increase the planting of not just productive species but native species by 2050, the United Kingdom will be importing 80 per cent of the timber that it needs. That is quite a shocking scenario, given that the temperate climate in Scotland and the rest of the UK is ideal for planting trees that are extremely useful for construction, for sawmills and for a whole variety of purposes.

The signs are right, and I look forward to working with the committee to use all the levers—not just financial ones, but including the substantially increased money that we are devoting to planting—to help to meet the targets that I think we all want to meet.

The Convener: Cabinet secretary, I agree that the increase is encouraging, but the figure is still 4,500 hectares below what has been suggested—that is, the 13,000 hectares that we should be targeting this year. However, we will leave that there and move on to sales of the forest estate. Will you explain how sales and the repositioning of the forest estate are decided upon?

Fergus Ewing: I am happy to do that. Over the past 10 years, ministers have mandated Forest Enterprise Scotland to sell lower priority land and forests in order to reinvest for higher priority objectives. That programme is called repositioning, which you alluded to, and it has made significant contributions to four things—woodland creation for climate change mitigation and future timber supply; community benefits through urban regeneration and land sales to communities; support for agriculture through the creation of farming opportunities for new entrants, including nine starter farms; and delivery of ecosystem benefits at a landscape scale.

On the factual side of things, since April 2005, some 46,000 hectares or 7 per cent of the estate has been sold but, over the same period, 30,000 hectares has been acquired. Properties to be sold are selected with the help of cost benefit analysis and more than £100 million has been raised and reinvested in the estate since 2005. The most recent significant sale was at the Barracks in highland Perthshire, where nearly 4,500 hectares was sold for £9.5 million. That was the largest single sale from the estate in several decades. As

well as land for woodland creation, a significant acquisition of nearly 2,400 hectares was made for £7.4 million in 2014 at Rothiemurchus to secure the heritage value of that key part of the Cairngorms native pine woods.

Repositioning, which has been carried out for over a decade, is plainly a sensible process, and it is sensible to reinvest the proceeds in the purposes or objectives that we all wish to see achieved. Receipts from woodland sales are reinvested in acquisitions, woodland creation and other repositioning objectives. I hope that that paints a headline picture, but I am sure that Jo O'Hara can—Oh, I am sorry; Simon Hodge is here.

The Convener: Simon, can I ask you to address the logical follow-on to that? Can you confirm that any capital received from sales or repositioning of the national forest estate has been reinvested in that and has not been used for grant funding for trees?

Simon Hodge (Scottish Government): That is right. As the cabinet secretary indicated, the situation is that the receipts from the repositioning sales have been reinvested into woodland creation on the estate, our urban regeneration work—for example, in the central belt and Glasgow—promoting agricultural integration and starter farms, and acquisitions that help us to deliver ecosystem benefits at a landscape scale on the national forest estate.

The Convener: I am not sure that I fully understand that; can I get it exactly clear? Can you confirm that the money raised from sale of the national forest estate is not being used to fund grants for growing more trees?

Simon Hodge: That is right. All repositioning sales receipts to date have been reinvested on the national forest estate.

The Convener: Okay, thank you. I will leave it there.

Mairi Evans (Angus North and Mearns) (SNP): The committee heard evidence from Confor about planting in marginal sheep farming areas. Confor suggested that that delivers four times as much income to the landowner and twice as much into the local economy as they would get from marginal sheep farming. Is there any merit in encouraging planting in marginal sheep farming areas, and would that result in a saving to the public purse as was suggested by Confor?

Fergus Ewing: Jo O'Hara is prepared to answer that.

Jo O'Hara: Yes. We have been doing quite a lot of work with Confor, the National Sheep Association and NFU Scotland to look into that. Following on from my previous answer, one of the

reasons why more land has not been planted is that the people who currently own that land do not choose to plant it with trees.

A lot of the land that is most suitable for tree planting, which is generally marginal agricultural land, is currently farmed and mostly for sheep. That is where the pinch point is in relation to supply and demand. The sheep industry is going through a lot of changes at the moment as well, and we think that there are real opportunities for both the farming sector and the forestry sector to benefit. At the end of the day it is about the best use of land.

I am familiar with the Confor report, which used a very specific example, but it is true that if we look at the economics, good returns can be made from forestry relative to certain projections for sheep farming. If the employment is spread over the full rotation, it is also comparable, if not better in forestry. Probably the best outcome comes from an integrated use of land that is not entirely dedicated to one or the other. That is the work that we are doing with both the farming and the forestry sectors, to see whether we can make best use of the land—be that trees, sheep, cattle or whatever—in order to deliver the best for Scotland and the best return for the public purse.

In answer to the question, there are opportunities—there is no question that there are opportunities there. The farming sector recognises that and the forestry sector recognises it. That is an area that we are working on and focusing on.

Mairi Evans: The discussions are on-going on that.

Jo O'Hara: Yes. We have held two events in the last year, which we call sheep and trees events. I say we—the National Sheep Association fronted them up, but it is very much a partnership with us, the rest of the Scottish Government and the NFUS, to start helping farmers to see the real opportunities that are potentially there from growing trees as part of their business.

Mairi Evans: Okay, thank you.

The Convener: Gail Ross has an ancillary question about marginal ground.

Gail Ross: Cabinet secretary, as you are aware, my constituency holds one of the biggest peatland areas in the world. Can you tell me a bit about the budget line that tells us about investment in peatland restoration?

Fergus Ewing: Yes, a substantial investment is being made in peatland restoration. My officials will look for the precise figure. This was substantially being dealt with by my colleague Roseanna Cunningham, although it is in our budget, so we worked together to make a very substantial investment in peatland restoration,

which of course is extremely important for the flow country.

Peatland restoration has been lobbied for pretty strongly by a number of stakeholders, including NGOs, and it will make a significant contribution towards achieving our targets. Mr Baxter has found the page with the figure on it.

10:30

Mike Baxter (Scottish Government): Within the SRDP, the budget for 2016-17 included £2 million to cover peatland restoration. That amount has been increased by £8 million in the 2017-18 budget, so significant additional investment has been put in to peatland restoration.

Gail Ross: I was going to ask what exactly that money is for and how it will be used, but I do not know whether you will be able to answer that.

Mike Baxter: We will need to follow that up. I am happy to provide details.

Fergus Ewing: I think that we will provide details through Ms Cunningham who, as members will appreciate, has been dealing with the issue. Obviously I am delighted that this investment is going to be made and I am sure that a substantial part of it will support activity in Gail Ross's constituency. I imagine that that will be a satisfactory outcome.

The Convener: It would be very helpful, cabinet secretary, if you could ask for a quick response, because we are under a very tight timescale for reporting on the budget, as are all committees.

We move on to CAP payments. Before we go any further, I declare that I have an interest in a farming business. I did not declare an interest earlier as I have no interest in growing trees, but I do in farming.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): I have a registered agricultural holding of a grand total of 3 acres, from which I derive no income. The farmer who uses it as seasonal grazing gets all the economic benefit.

There are increases for CAP information technology and for payments and inspections administration costs. Cabinet secretary, we have previously heard from you about your commitment and your determination to make sure that IT does not get in the way of effectively delivering payments to farmers in the coming year. I take it that you can confirm to us that the increases are directed at ensuring that and that IT will not become an issue that we will have to discuss to any material extent in the coming year?

Fergus Ewing: Thank you for that question. We do have confidence that the IT system will deliver within its budget the core components for CAP

compliance. Indeed, it would not have been possible to deliver payments to customers and meet compliance rules without a bespoke IT system.

This is a matter that has been the subject—quite properly—of a great deal of parliamentary scrutiny and I do not shy away from that. I stand by everything that I have said before and I hope that I have sought to deal with it in a straightforward manner.

It is perhaps useful to remind everyone that the IT system was designed not just for one or two years but for several years to come. I do not have the figure in front of me but I believe that the total payments that the system was designed to support are of the order of £4,000 million. In other words, it was an expensive system but one which was to be used as a tool for delivery of the agricultural payments and a great deal of other payments across the rural community. It is important not to lose sight of that.

Yes, mistakes have occurred; we have put our hands up to that and have been quite candid about that, which I think farmers at least appreciate. I was pleased that the national loan payments scheme was able to benefit—from memory—just over 13,000 farmers, with a very considerable injection of money into the rural community at an important time of year, namely the first fortnight in November, which is early enough for farmers who wish to do so to make an investment.

I attended the AgriScot event, where—I assure you—a lot of investment was happily taking place, much to the stallholders' pleasure. Although there are problems, I hope that we are now turning the corner.

My top priority is to get the system right. I am spending time, as I did last week, meeting the chief executive of CGI, which is the main contractor, to ensure that things are on track in order to avoid—as we all wish to do—a repetition next year of what we saw last year. I want to give my personal assurance that I am absolutely on the case, along with my civil servants, who are putting in a huge amount of time and effort to get things right.

Many members of the committee have rightly pursued the issue on behalf of their constituents, so it is essential that we get the system right, and that requires the necessary budgetary commitment to be made.

Stewart Stevenson: To complete my interest in the matter, the level 4 figures for pillar 1 show no inflows and outflows in your budget at all, and the note states that the funding is solely from the European Union's European agricultural guarantee fund. Can you confirm, now that we are

distributing the money for farmers—not all of it, but a substantial amount—earlier than has been the case historically, that the cash flow of those payments that we are making matches the cash flow of the payments from the European agricultural guarantee fund?

Fergus Ewing: That is a technical question that I was not anticipating and I want to give you a technically accurate answer. If I may, I will come back very quickly with the precise answer to that question in letter form.

The Convener: Before I bring in Mike Rumbles, I want to drill down into what you said. It is my understanding that, in 2014-15, the budget for payments and inspections administration was £34 million; in 2015-16, it rose to £45 million; in 2016-17, it rose to £55 million; and in 2017-18, it is rising to £62.9 million. That seems to be a massive increase, despite the fact that the new computer system should be delivering a payment system that works for Scotland. My calculations suggest that the budget is almost double. Can you explain that to me, please?

Fergus Ewing: I can come back to you after we have checked the figures for the previous years from 2014-15. As you know, the new, reformed CAP system is massively more complex than its predecessor because of the agreement that was reached with all parties—including NFU Scotland—that there should be a differentiation between three categories of land. As far as I am aware, all parties supported that agreement, which was designed to achieve desirable outcomes. However, the concomitant was that it massively increased the complexity of the system.

Given the necessity of absolute accuracy in global positioning system calculations for each field and component of each one of hundreds of thousands of holdings, it is clear that the system will be extremely complex. One does not need to be possessed of a brain of the scale of Einstein's to realise that, as a result, the system will be more expensive to administer.

Yes, the costs are higher, but they were bound to be. It falls to me to implement the decisions that were taken prior to the current session of Parliament, and I am determined to do so to ensure that we achieve our prime objective, which is that farmers get their money in time. With respect, it is not for me to pore over what has happened in the past; I must look forward to the future. I want to secure that objective next year and I assure you that my officials' efforts are determined in that respect—I personally oversee and guarantee that every single week of my short tenure in this office—and that we deal with the system, with all its complexities, in order to get the money out.

I am pleased that the uptake of SAFs—single application forms—has substantially increased since last year. The success with the delivery of the national loan scheme is a positive sign.

I have already agreed that my next report will be at the end of January, so no doubt we will have more time to come back to this happy topic and I very much look forward to updating the committee at that time.

The Convener: We have agreed that you will come back towards the end of January, and I welcome your confirmation of that. At that stage I would like to delve into why the computers doubled in cost and why the cost of implementing the system doubled. I do not think that we have time to go through all the nitty-gritty now.

Mike Rumbles (North East Scotland) (LD): I will refer to that particular point in terms of the draft budget. Audit Scotland said that the cost of the IT system had gone up to £172 million, but it is now rising by more than £42 million. That means that more than £200 million is being spent on the system during the coming year, which is a heck of a lot of money.

I have two parts to my question. Cabinet secretary, you keep mentioning the importance of farming businesses getting their money on time and said that you are pleased with the uptake of the Scottish Government's loan scheme. However, one third of farm businesses are not making a claim under the loan scheme, and the remaining two thirds are receiving only 80 per cent of their entitlement. That means that more than £200 million that would normally go into the Scottish economy each December is not going into the rural economy during this period. I am focusing not just on how much is going to the farmers but on the fact that our whole rural economy is affected, not just farm businesses.

As I say, my question is in two parts. First, how confident are you that the European Commission's target of paying 95 per cent of the full entitlement payments to farm businesses by June will be met? Secondly, I have been trying to find the budget line for the loans. It is my understanding—I have been told—that the money for the loan scheme comes from the Scottish Government's own budget, yet I cannot find any line in the draft budget for the loan scheme. Can you direct me to where I can find it? Also, will those moneys be paid back to the Scottish Government before farm businesses then receive their entitlement?

Fergus Ewing: There were several components to that, and I will try to deal with each of them.

First, Mr Rumbles quite rightly mentions the penalties. We have a specific duty to do everything that we can to minimise the possibility of penalties or disallowance arising. That is itself

an exacting task, because the EU rules are extremely detailed and very demanding. In fact, our benefits analysis demonstrated that developing a compliance system would avoid no less than £276 million of financial penalties to 2021-22. I mention that because it is a reminder of the importance of having a compliance system.

Secondly, on the loan scheme, I am not quite sure that I would accept the figure of one third—I think that the uptake was substantially more than two thirds. However, the point is well made: a substantial number of farmers did not take up a payment under the scheme. I make it absolutely clear to the committee that I was aware of that, and we took great steps to encourage all farmers to take up a payment. We explained that no interest would arise, except in a very remote scenario for most applicants—namely, if it turned out that the payment that they received of 80 per cent of the total was more than their actual entitlement and they then paid back the excess late. In almost all cases, no interest would accrue.

10:45

I have not had an opportunity to say this, but the question has been asked and it needs to be answered. I spoke personally last week to the head official of the project team that was handling the matter—I have been involved in numerous exchanges with him over the past weeks. He confirmed to me that steps were taken to contact farmers who had not applied for the payment, to ascertain why they had not done so. In all cases, the decision was taken by the farmer not to take up the payment. That is entirely a matter for the individual, who is quite entitled to do as he or she wishes.

I wanted to make it clear that I made sure that steps were taken to contact farmers who had not sought the payment, through publication in *The Scottish Farmer*, other specialist press and the general press, and individually—we did not contact every single farmer but we contacted a sample—to ascertain why they had not sought the payment and to say, “This money is available if you want it. There is no interest on it, except in that remote scenario. Will you take it up?” The head of the project team said that individuals took the decision not to take up the payment, as was absolutely their right.

On Mr Rumbles’s final question, the loan scheme was financed internally by the Scottish Government through an internal transfer, to allow us to have sufficient funding to fund the scheme up to a certain value. A cap was applied—I think that it was €150,000—to the total estimated liability. That internal transfer will require to be paid back by a certain time in the financial year. If it would assist the committee, I would be happy to

provide, by letter, full details of how that will operate, because Mr Rumbles asked a perfectly legitimate question. Alternatively, Mr Baxter can give more details right now.

Mike Rumbles: It is an important point. It came as a surprise to me that that was not European money but the Scottish Government’s money—I think because of European rules. I take the point that the money has gone to just over two thirds of our farm businesses and was 80 per cent of what we think their entitlement is. Was it just a paper exercise? Will farmers, under European rules, have to pay that money back to the Scottish Government?

Fergus Ewing: No.

Mike Rumbles: Will Mr Baxter say whether that is the case?

Mike Baxter: On how the budget is presented, the loan scheme is financed through the financial transactions budget, which deals with loans to third parties, and loans are offset when the CAP payments are made. Plans are in place to ensure that our financial transactions budget obligations are met such that we operate within the allocated resource in the budget. I can provide further details—

Mike Rumbles: Yes, but because of European rules, do the farm businesses have to pay the Scottish Government back the money, rather than it being just a paper exercise?

Fergus Ewing: No. It is up to us to repay the sums that were transferred from the financial transactions budget to the budget, to enable the national payment scheme to run. Farmers will not have to pay that money back—nor should they; that would be absurd. We have paid them the money; we made arrangements to enable us to do so through a short-term internal transfer.

That was a perfectly sensible thing to do, and I was determined to do it. We worked closely with Mr Mackay, the finance secretary, to enable it to happen, and I was delighted that he showed the Scottish Government’s commitment to Scottish farmers and ensured that we could offer farmers earlier payment than normal. It was the right thing to do. The measure was—quite rightly—welcomed by the NFUS; it was also welcomed by every single farmer outside this Parliament whom I have spoken to.

The Convener: You have clarified that the money will not have to be paid back in order to be reclaimed, so I am happy to leave it there. We may want to develop that line of questioning—if there is a need to do so—when you come back to the committee at the end of January.

We will move on to digital connectivity, a subject that crosses all party boundaries. Jamie Greene will lead on the topic.

Jamie Greene (West Scotland) (Con): This is an analysis of the budget, so I will try to stick to budget-related questions specifically on the important area of digital connectivity.

In next year's budget, there is a line on the capital commitment of about £110 million. The cabinet secretary mentioned that in his opening statement. I want to drill down a little bit into that number. Will he provide more details about what proportion of next year's budget forms part of the funding for the two existing Government contracts with BT to extend fibre broadband access to 95 per cent of premises? Will a proportion of that budget be part of the next procurement for the R100 project?

I ask those questions for a more general reason. We are looking at a snapshot of the 2017 budget, so it is difficult for the committee to get a feel for the overall cost of reaching the last 5 per cent of premises. Has the Government given any thought to the overall cost over the next couple of years? That would give us an idea of whether next year's allocation for that work is a suitable proportion of the budget. I am happy to clarify the point if it is overly complicated.

Fergus Ewing: You asked about what proportion of the total capital allocation of £112 million will be used in order to deliver the digital Scotland superfast broadband programme. The answer is £21 million.

Members will be aware that the programme is moving towards completion. Its total budget of £400 million covers the two contracts: the Highlands and Islands Enterprise administers one for the north of Scotland, which was moved forward first; and the Scottish Government administers the other for the rest of Scotland. Up to £21 million will be used to deliver the final phase of the £400 million programme, which will extend BT's fibre broadband network into non-commercial areas.

The investment will extend fibre access to at least 95 per cent of premises across Scotland by the end of 2017. Although the figures have still to be audited and finalised, members might be interested to know that more than 679,000 homes and businesses have been connected, with 90 per cent receiving superfast broadband speeds. That means that, by the end of the contract, coverage will be 95 per cent. Had it not been for the contract—this is an important point—planned commercial coverage would have reached only 66 per cent.

As a result of the contract, which has been delivered reasonably well—Audit Scotland and

others, including Ofcom, have recognised that faster progress has been made than is the case down south—95 per cent of premises will be covered by the end of 2017. Of those 679,000 premises presently covered—I repeat that the figures have yet to be audited—the vast majority receive superfast speeds.

Many people have not yet got coverage, and the next part of what we do, alongside other elements of the capital budget, will start to address that problem, about which many communities, through MSPs on the committee and in the chamber, quite rightly ask for answers.

It is important to recognise that there are five processes—to design, to survey, to build, to connect and to activate—to connect broadband. Each one of those stages can result in difficulties and delays. That is the nature of any project to install utilities. None of it is straightforward, but good progress has been made. I am delighted to have had the chance to outline those facts.

Jamie Greene: I thank the cabinet secretary for that detailed answer. The only thing that was missing was the answer to my second point. It is important that we get a feel for the scale of that last 5 per cent. Assuming that £21 million of the £112 million is related to the existing contracts, does that mean that the budget that will be allocated next year of around £90 million will form part of the remainder budget?

The original question was whether the Government has given any thought to how much it might need overall to reach that 100 per cent commitment. It is very hard to tell whether £90 million scratches the surface or is a suitable amount to reserve. I appreciate that the tender process has not started and the procurement process has yet to take place, but I would like to think that, as part of working out next year's budget, the Government has an overall picture of the potential cost of reaching 100 per cent coverage.

The Convener: Just before you answer that, cabinet secretary, and to give you a moment to gather your thoughts, Gail Ross wants to supplement that specific point with another question.

Gail Ross: The Audit Scotland report "Superfast broadband for Scotland" mentioned several times the sum of £42 million that was to be used for the programme next year. The Public Audit and Post-legislative Scrutiny Committee asked Scottish Government officials where that money was to be used, and they said that it was part of the budget for next year's programme. I see no mention of that sum in this budget. Is that part of the £112 million for the current programme? Do we know where it falls in the budget line? Has it

disappeared, or is it still there? Where has it gone?

Fergus Ewing: I do not have the Audit Scotland report in front of me, but that pre-dated the preparations for this budget.

Gail Ross: It did.

Fergus Ewing: By definition I think that we must be looking at a different figure. In response to both Gail Ross and Jamie Greene, I can say that most of the balance of the £112 million will be looking forward. It is designed to deal with two things in particular, at least principally: the 100 per cent superfast broadband programme and mobile telephony. Large sums will be allocated to both.

Mr Greene quite rightly alluded to this, and I need to make a number of points about it. First, the Government—by which I mean both the Scottish Government and the UK Government—is not the default provider of broadband. It is commercial operators that make money out of it. They install the broadband—or one particular company does—and then they make money by supplying customers with broadband. Let us not forget that there is a commercial driver—the taxpayer is not the default provider for the installation of utilities.

It is important to spell that out, because all too often the political debate presupposes that a piece of legislation is passed in Westminster, which has reserved responsibility over these matters, that says that the taxpayer shall fund broadband for everybody. That is not the case. I think and hope that all members would subscribe to the principle that we should get the commercial operators to fulfil their responsibilities, because they will go on and make a profitable business out of it. That is reasonable. However, with the public sector being the sole investor, we must be very careful not to prejudice the negotiations that we have by being overly candid about what we want to bring to the table.

All of that said, we have a major commitment in our manifesto, we work very closely with broadband and mobile companies, we have the mobile action plan in Scotland—the only one in the UK—we have had the accolade from Ofcom that we are making faster progress than the rest of the UK, and Audit Scotland has recognised the progress that we are making. However, that is no comfort to people out there, particularly in the rural parts of Scotland, who are not yet getting the coverage that they want.

My final point is that we should not forget that other countries have taken a different approach from the UK Government. Other countries have taken an outside-in approach and made the policy decision that proper mobile and broadband access should be provided to their rural communities by

regulating the industry and requiring it to produce that.

That was not the decision that was taken by the UK Government, which instead wanted to maximise profits through the sale of spectrum for mobile. I wrote to Matt Hancock some considerable time ago—we have yet to agree a meeting—and asked him whether, when he gets round to considering 5G spectrum options, he will go for the outside-in approach by maximising regulation and thereby providing maximum opportunity for people in rural Scotland to have proper connections. I look forward to getting a very positive answer as a result of working constructively with the UK Government.

11:00

The Convener: You have made your point very forcefully, cabinet secretary, but if I might be so bold, I will say that I think that we have drifted slightly away from the budget.

I believe that Jamie Greene wants to drill down on non-commercial provision and community broadband Scotland. Can we move in that direction, please?

Jamie Greene: Yes, convener. Community broadband Scotland is a fine place to move on to.

However, on the points that the cabinet secretary has made, I think that, although the Government does not have a mandate to deliver broadband, most people these days perceive broadband as a utility like gas, electricity or water. As far as the future of digital Scotland and our ability to compete on the world stage are concerned, I think it important that broadband be available to every household and business in the country. That is the only additional comment that I will make in that respect.

I want to praise the work that community broadband Scotland has done thus far with the budget that it has had. The draft budget does not mention it specifically, so can you set out the plans for the future and funding of community broadband Scotland?

Fergus Ewing: I subscribe to the sentiment that Mr Greene quite rightly expressed; we all want people to have proper connectivity. All the committee's members have, I think, made that point very forcefully from time to time. However, although we all want to get to the same place, my main point is that that should not always happen just at public expense.

On Mr Greene's specific question, I say that we plainly want to continue to support community broadband Scotland's work. It has approved funding for 77 communities at various stages of the project development process, and it is

supporting more than 100 more. Of the 77 projects that I mentioned, 16 that cover more than 4,200 premises have received capital grant funding totalling more than £2.1 million.

Like Mr Greene, I think that community broadband Scotland has performed a very useful and valuable role for some remote rural communities, but we will need to tender for further provision if we are to reach the 100 per cent target in the course of next year. With your permission, convener, I ask Colin Cook, who is leading on the matter, to give the committee a little bit of information about funding.

Colin Cook (Scottish Government): I would be delighted to do so. On the previous point, it was noted that a number of variables must be taken into account as we agree forward funding to reach the 100 per cent target. One of the key projects in that respect is the on-going open market review, which will close at the beginning of January and will give us an up-to-date understanding of commercial providers across Scotland and their commercial plans. That really important information will allow us to define an appropriate procurement strategy.

The budget contains provision for the running costs of community broadband Scotland; those costs are in the order of £1 million, which comes directly from the Scottish Government. However, the crucial thing for the projects that community broadband Scotland has in train—it has about 19 projects that it is looking to deliver in the months ahead—is that it also has access to up to £9 million of Scottish rural development programme funding, which is available for it to do the kind of good and impressive work that it has been doing to date.

The Convener: Do you want to come in on the back of that, Stewart?

Stewart Stevenson: I want to ask about a point that was made much earlier, convener. I very much welcome the cabinet secretary's comment that 697,000 houses are now connected for superfast broadband, but does that mean that superfast broadband is now actually available to 697,000 houses? After all, only a proportion of those to whom it is available will have chosen to connect to it. I thought that it would be helpful to get some clarity on what the figure actually means.

Fergus Ewing: That is a very sensible question. Perhaps Mr Stevenson is envisaging a future career as a spin doctor. I do not know.

To be serious, though, I point out that the figure is actually 679,000. I should say that I have never yet been able to correct Stewart Stevenson about anything; I am simply making the point. His point is well made; the figure relates to access. It is not

necessarily the case that every household or business will choose to avail itself of the service.

Stewart Stevenson: That is fine, cabinet secretary. Thank you.

The Convener: We will have a final question on broadband, after which we will move on to mobile applications.

Jamie Greene: As you are probably aware, cabinet secretary, the Chancellor of the Exchequer announced in the autumn statement substantial investment of around £740 million in digital infrastructure across the UK to support fibre and 5G mobile connectivity. I presume that that funding, which is being made through the national productivity investment fund, is additional to the funding for the R100 project in your budget. What conversations have you had with the UK Government on that additional investment, and how does that tally with the Scottish Government's plans in order to ensure that Scotland benefits from a proportion of that funding that might be made available by the UK Government?

Fergus Ewing: I have had no discussions of any description whatsoever with the chancellor. We were not informed in advance about the announcement and we have not heard anything about it since, but we believe—as Mr Greene appears to believe—that we should have a share of the funding. As yet, however, we have had absolutely no confirmation of that. It is a very substantial amount of money, and we expect Scotland to receive its due share. Obviously we have pressed for an answer. Perhaps Mr Cook can expand on that.

Colin Cook: I clarify that there have, at official level, been meetings at which we discussed the matter, and we have started the process of finding out what contribution the funding might make to Scotland. However, because the plans for deploying that money and how it will break down between technologies and approaches are not yet firm, we do not know precisely how it will contribute to our targets. Nevertheless, we are engaged in the process and we have a very constructive relationship at official level. UK officials will be looking at some of our work to prepare the ground for 5G. We are very proud of it, and I think that it has lessons for the rest of the UK.

Jamie Greene: Just for confirmation, have you had discussions at official level?

Colin Cook: At official level, we are continually in dialogue with broadband delivery UK, which has been a major funder of the superfast broadband programme. Discussions are on-going. Such announcements—as the cabinet secretary said, we were not consulted prior to this particular

announcement—are bound to be discussed at official level.

The Convener: Do you want to come in here, Rhoda? I believe that your question sort of links into this discussion.

Rhoda Grant (Highlands and Islands) (Lab): There is a slight link, convener. The cabinet secretary talked about discussions with the Westminster Government and priority being given to rural areas. Will the next contract that goes out prioritise the hardest-to-reach areas? Although a huge number of areas have been connected, some still have little or no hope of connection, and I would say that that is a growing concern.

Fergus Ewing: Rhoda Grant has made a very reasonable point. The purpose of the commitment that the Scottish National Party made, and which we as a Government have accepted and are now going to fulfil, is to provide universal access to broadband by the end of this parliamentary session, and to do so with all due speed.

I must stress, though, that the task is very complex. Mistakes have been made in the past in the specification of contracts; for example, the UK mobile infrastructure programme was a complete disaster with, I believe, only three out of 80 new mobile masts being delivered. It is very easy to get something like this wrong; it is far more difficult to get it right, so we obviously want to work with the committee on that.

I wrote to Matthew Hancock in October about this. His office contacted me last week, and I hope that we will meet in the new year. I will argue that the approach that Rhoda Grant has set out is the approach that would fairly redress the balance somewhat for rural Scotland and the islands of Scotland, which are too often at the coo's tail of things. The issue is close to my heart, to Rhoda Grant's heart and to the hearts of other members, including Gail Ross, because our constituencies include many people who lack the connectivity that people in towns and cities have. The approach of requiring operators to do more for the rural and island parts of the country is one that we have advocated, and I will do that again when I meet Mr Hancock. I hope that that meeting can, after a couple of months delay and non-response, be arranged for early in the new year.

Rhoda Grant: Given what you have said, will you use that approach when you design the Scottish Government's new contract? Will you prioritise the most rural areas? The low-hanging fruit has been collected and there is increasing frustration because people who desperately need connectivity are being left behind because of their location.

Fergus Ewing: The approach that we are taking is to reach 100 per cent coverage, so

plainly we want to reach out to remote rural and island locations. We cannot achieve everything at once. The processes are, in effect, a type of civil engineering contract. Broadly, the approach that Rhoda Grant mentioned is the one that we want to take. I was drawing a distinction between the approach that we will take in a tender exercise to extend access to superfast broadband to rural and island areas and the powers of the UK Government, which has, as the possessor of the legal competence, the power of regulation. The issue is not just about money; it is also about regulation.

In mobile telephony and broadband, what operators are asked to do is dictated by regulation. Plainly, commercial operators tend not to do more than they have to do, unless they can do so profitably—they want to deploy their capital in the most profitable fashion. Other countries in the EU have taken an outside-in approach precisely because they believe—for policy reasons—that it is important that they do so. We have advocated that the UK Government should emulate rather than dissociate itself from that approach, and I will continue to do that with Mr Hancock. I will happily report back to the committee on whether the UK Government accedes to the suggestion that it take the approach that Rhoda Grant and I would like it to take.

Mr Cook may wish to add to that.

Colin Cook: We have not yet designed the procurement strategy. I mentioned that the open market review will be critical to that. Achievement of 100 per cent coverage will involve a mix of Government funding and commercial activity. Many urban premises are not connected to superfast broadband: commercial companies are more likely to be able to address those premises than they are to address remote rural premises. Therefore, the balance and the timing of Government investment are likely to be skewed to rural first—if I can put it like that—in a procurement strategy.

Rhoda Grant: That was the answer that I was looking for.

The Convener: The draft budget says that the Government is

“working with mobile operators to develop a programme to address 4G coverage gaps.”

It is referring to the “no G” areas. What plans do you have afoot and what budget has been set aside to implement the mobile action plan that was agreed with the four UK operators? What moneys have been set aside specifically for that?

Fergus Ewing: I will pass over to Colin Cook to deal with the money part of your question.

The mobile action plan has several components, all of which are very important. The non-monetary plans are extremely important, too. They include working to extend permitted development rights so that construction of mobile masts can be completed as swiftly as possible and applications can be aggregated. The Scottish Government has had great co-operation from local authorities in that work. At the convention of the Highlands and Islands, the consensus view—as I think it is fair to characterise it—was that the quicker we can get on with this, the better. That was certainly the Highland Council view at COHI, which is a very useful means of working together on such matters.

The higher the mast, the greater the radius of coverage. The number of people who can get a signal from higher masts is of value. In addition to that, we have another segment of work with the emergency services—which, obviously, have masts. I know that good work is being done through that particular route. We have also had a rates relief pilot in the national parks for mobile operators. That is another aspect that mobile operators are looking at; and we are looking at the possibilities thereanent. We have also made budgetary provision to supplement the work that we are doing.

11:15

I am not particularly keen to get involved in specifics at this stage, but I will be happy to brief the committee privately. I would prefer to keep our powder dry for commercial confidentiality reasons. We do not want to prejudice negotiations in these matters, do we? As has been acknowledged, we all want to get the very best from private operators. Colin Cook can expand on the importance of that aspect.

Colin Cook: Rhoda Grant referenced the mobile action plan. Our principal investment—certainly for this year—arising from that plan will be in 4G. Currently, we are working with the Scottish Futures Trust to develop an infill plan for 4G. That work should be completed by the spring and will define the procurement strategy and therefore the amount of budget that will be allocated to mobile.

As the cabinet secretary said, we are also working with the UK Government to take advantage of the UK-wide emergency services mobile communication programme. We are trying to develop that programme in a way that adds greatest value to mobile coverage across Scotland.

The Convener: I think that Gail Ross wants to come in on the back of that—not necessarily on 4G, but to ask where the gaps in mobile

connection are and what is being done about that. I will let Gail ask the question.

Gail Ross: Thank you, convener. You will not be surprised to know that, in some areas of my constituency, people cannot get a mobile phone signal, full stop—let alone 2G, 3G or 4G, which would be absolutely fantastic. I am sure that it is the same for quite a lot of other people. While we are talking about infill, and you talk about 4G, there will be quite a lot of people who will want me to ask when they will get a mobile phone signal, full stop.

The Convener: As our subject is the budget, I ask you to say specifically whether there is money set aside in the budget to help to ensure that that happens.

Colin Cook: We have done the figures. We have said that the only contractual commitment in the budget from the £112.1 million was the £20.9 million commitment to the digital superfast programme. That additional money is available for a combination of building the 100 per cent overall broadband and for mobile. Two separate procurements are required to deliver those two strategies; one of those is around mobile infill. So, yes—in that sense, money is available to improve and to fill in mobile coverage across Scotland.

Whether I can offer a particular commitment to members' constituents in every place is a different matter. I would have to come back when we develop the planning, and do it at that stage. However, there is money that will be made available to improve mobile signals across Scotland.

Fergus Ewing: There is another important aspect that has not been raised but which I think is important. I picked up from meetings with operators that the more people there are using mobile phones, the more clutter there will be, and the more signal in the cities is taken up, the greater is the likelihood that enhancement of the existing signal will be needed in the future. In other words, we cannot assume that just because Glasgow has got its signal everything is fine. More and more people are using mobile, and the signal is therefore being used up. We should not think of the problem as being a purely rural one; gaps may well occur in cities and towns in the future, simply because of the massive increase in uptake of mobile devices. I am not a technical expert, but it is a dynamic area. In meetings with mobile operators, there are many other aspects that we need to bear in mind for people who represent urban constituencies.

The Convener: Thank you for that. I go back to Colin Cook and ask him whether he is prepared to give Gail Ross the assurance that everyone in Caithness will have a mobile signal. I suspect—

Colin Cook: What I said was that we are developing a plan for infilling of mobile. That plan will consider individual areas, and I am sure that Caithness will be part of that planning.

The Convener: I am trying to drill down. Do you have a figure in the budget to allow infilling to be done during the coming year? The committee has been asked to look at the budget figure. I know that not all of it will be spent in Caithness.

Gail Ross: The rest will go to Sutherland and Ross. [*Laughter.*]

Colin Cook: I am sure that due consideration will be given to those areas of the country.

At present, the precise allocation of budget between mobile and the building of the fibre infrastructure for R100 is subject to the completion of open market reviews and the development of the procurement exercises. However, we are confident that we have made the overall allocation to enable those two programmes to go ahead in the ways in which they need to go ahead.

The Convener: You are not going to answer my question, but that might be wise. John Mason is next.

John Mason (Glasgow Shettleston) (SNP): We have spent a lot of time talking about the physical infrastructure. That is important, but the figures that we have state that 98 per cent of households with incomes over £40,000 have home internet access whereas only 60 per cent of households with incomes under £15,000 have it. Is there something in the budget that can help to address that?

Fergus Ewing: Colin, do you want to cover that?

Colin Cook: Yes, if I may. This issue is at the heart of our efforts to promote digital participation, which comes under the responsibilities of Ms Hyslop as Cabinet Secretary for Culture, Tourism and External Affairs. As previous committees have acknowledged, we have made tremendous progress in developing basic digital skills across Scotland to the point where we now have the highest level of basic digital skills of any nation in these islands. It is a really good, positive story, and the work that is being done in communities through the Scottish Council for Voluntary Organisations and members of the digital participation charter exemplifies how we should approach the issue.

As members know, the Government is committed to refreshing its digital strategy, which will probably happen in February. Participation will feature heavily in that, because securing the benefits of connectivity, be it for homes, businesses or farmers, is, as we have heard

today, at the heart of why we are making those investments.

John Mason: Is home internet access still seen as a priority, given that phones now can do more and more?

Colin Cook: That is a slightly false distinction because the devices that are used are so variable and so varied. A lot of people are now accessing the internet via tablets and mobile devices, but we still need a degree of fibre in the ground as a spine on which that can develop. That is the approach that we are taking. We put a spine of fibre into the ground, and it provides the backhaul to support mobile and enables us to prepare for 5G and all the technologies that are coming down the line.

John Mason: We understand that there are plans to separate Openreach from BT, which might increase competition. Would that have any impact on all of this? Would it help?

Fergus Ewing: The initial recommendations from Ofcom's strategic review of digital communications were published in February, and it found that the incentive that Openreach still has to make decisions in the interests of BT rather than its competitors can lead to competition problems. Plainly, the very high-level finding was that that was bad for competition and needed to be opened up. If we open things up, we tend to get fiercer competition and lower prices, and therefore access for those on lower incomes becomes better, in a market that is working properly. We welcome that aspect of the Ofcom regulation. It is at a very high level, but the intention of stimulating more competition is a good one. There are not that many mobile operators and BT has just purchased another one of them. We work with all the operators but, as Mr Cook has said, we want those on lower incomes not to be excluded from digital access.

Another aspect is that we believe that there should be an extension to tackle the palpable gender gap in information and communications technology subjects and careers. Just last month, the gender action group launched an action plan to focus our actions on young women in education and on those who are in or are looking to return to the labour market. We should not lose sight of the issue, although it is perhaps not directly relevant to the analysis of the budget that is going on today. I hope that all members agree that such a project is worth while.

The Convener: Stewart Stevenson has a quick question before we move on to transport.

Stewart Stevenson: The hardware standards for 5G are established, but software standards are not. On the speed for 5G, the thinking is 1 gigabit per second in cities but 100 megabits per second in rural areas, and there is talk of the first practical

deployment trials taking place in 12 to 18 months' time.

Will the Government consider contributing funds from its budget to ensure that one of the early 5G trials takes place in a rural area, so that the putative speeds can be tested in the real world and the design of contracts and sale of spectrum, for which the UK Government will be responsible, can properly reflect our needs? 5G is still a bit of a moving target, and it would be good if we were involved in helping to understand it. I will take a yes answer, cabinet secretary. *[Laughter.]*

The Convener: A yes or no answer would be helpful, because we still have a lot of questions.

Fergus Ewing: Yes.

Stewart Stevenson: Thank you.

The Convener: Thank you for your brevity, cabinet secretary.

John Finnie (Highlands and Islands) (Green): The Scottish Government has the laudable vision, to be achieved by 2020, of a Scotland in which 10 per cent of everyday journeys are made by bicycle. I am told that 1.5 per cent of journeys are currently made by bicycle, the proportion having been 1 per cent for more than a decade.

There is mixed news in the budget. The budget for cycling, walking and safer streets is going up from £5.9 million to £7.4 million, but that increase is offset by a reduction in support in the sustainable and active travel line in the budget. The active travel share of the transport budget will fall from 1.8 per cent to 1.6 per cent—a fall of 6 per cent—while at the same time, the motorways and trunk roads budget is going up by £146 million, an increase of 18 per cent. Why is there no increase in the active travel budget?

Fergus Ewing: We value active travel, and we have, as you know, invested pretty substantially in it. We have invested more than £1 billion a year in public and sustainable transport to encourage people to use public transport and active travel modes. We are continuing the future transport fund, which, through work with local authorities, supports the development of priority cycling and active travel infrastructure projects.

As I said in my opening remarks, we are continuing with projects to accelerate the widespread adoption of low-carbon vehicles, including the chargeplace Scotland network of electric vehicle charging points. The purchase of low-emission buses is facilitated through the green bus fund, and the freight facilities grant encourages the transfer of freight.

Compared with 2013-14, we have increased investment in active travel by more than 80 per cent. Funding was down to £21.35 million in that

year, and it has been £39.2 million in each of the past three years. We plan to match that in 2017-18, in line with our programme for government commitment to match record levels of funding for active travel for the duration of this parliamentary session.

I understand that you are urging us to go further, Mr Finnie, and I understand where you are coming from in that regard. However, matching the funding is a solid sign of our continuing commitment and the implementation of our programme for government commitment.

John Finnie: That is all good, as are your comments about public transport, green buses and electric vehicle charge points. Nonetheless, support for sustainable and active travel is down. How does that contribute to achieving your vision?

Fergus Ewing: I am not sure that that is correct. Perhaps Mr Baxter, who works in the field, will confirm whether I was correct. Obviously, I do not want to give any incorrect information to the committee.

Mike Baxter: The totality of the sustainable and active travel budget is made up from a number of budget lines. Therefore, although the level 3 figure for sustainable and active travel is down, other components of the transport budget counteract that. The overall commitment to maintain £39.2 million remains in the 2017-18 budget. The difference is just a presentational one, and I am more than happy to provide details to the committee to demonstrate that.

11:30

John Finnie: In relation to issues such as climate change and obesity, many bodies such as Stop Climate Chaos Scotland and Spokes—which might well be described as the usual suspects—commend a move to spending 10 per cent of the transport budget on active travel. We are way short of that. Is it any part of the Scottish Government's vision to increase the percentage of the overall transport budget that goes on active travel? Clearly it is offset by the 18 per cent increase in the motorways and trunk roads budget.

Fergus Ewing: It is fair to remind the committee that we invest more than £1 billion a year in public and sustainable transport. We make substantial investment in railways—and rightly so. There has been more capital investment in the railways than there has been for a very long time, what with the Borders railway, the improvements on the Glasgow to Edinburgh line and substantial improvements on the lines from Inverness—Mr Finnie's hometown—to Glasgow and Edinburgh, with the target of reaching a journey time of 2 hours and 45 minutes in due course and thereby matching the roads.

In other words, those investments are designed to attract people on to the train over time. The ambition that we are aiming at is an hourly service from Inverness. We are also making very substantial investment in the Highland main line and the line from Inverness to Aberdeen. Also, with Ms Ross's constituency at the forefront of our minds today, I note that the far north line is the subject of a review group that I announced last Friday so that people who are working on the peatland restoration can be accommodated on the train and have a signal on their mobile phones to boot.

Without being flippant, I would say that we are making a substantial investment in the matter, as Mr Finnie knows. However, I understand that he will always put the case for us to do more and we always want to work with him and his colleagues to study what more we can do.

John Finnie: It is absolutely fair to record that those efforts to enhance the rail network are commendable and are appreciated, but my question was specifically about cycling and walking. There is some good news in that respect—our part of the world is, at 6.1 per cent, second in cycle use—and there have been some positive initiatives, but it is felt that a lot more could be done on cycling and walking.

Fergus Ewing: That is fair enough. We will take that point away.

Richard Lyle (Uddingston and Bellshill) (SNP): Page 28 of the Scottish Parliament information centre briefing indicates that support for bus services has gone up from £50.7 million to £54.2 million, an increase of 6.9 per cent. Although I agree with my colleague John Finnie on some areas, I should also remind him that the new M8 and M74 upgrade has extensive cycle and walking routes added in.

The Convener: Your point is well made, Richard.

If you are happy, cabinet secretary, we will leave the matter there, because we still have a few questions to get through.

Fergus Ewing: I am sorry, convener, but have I misunderstood something? We have been here for the hour and a half allotted and I have other commitments to attend to.

The Convener: We have other questions, cabinet secretary.

Fergus Ewing: We have overshot our time. I want to accommodate the committee, which is why 90 minutes was allocated, but we have been here for the allocated time and I have another engagement.

The Convener: I do not think that we received formal notification of your timings and I thought that the committee meeting would go on. Are you saying that you are unable to continue?

Fergus Ewing: Well, I believe that I have another engagement to attend. My understanding was that the agreed allocated time was a full 90 minutes, which, as far as I can recall, is 30 minutes more than ministers in the previous Administration used to devote to such committee meetings. I could be wrong about that, but I had thought that we had agreed that the session would be from 10 am to 11.30 am. I was not involved in those discussions, so perhaps the clerks can confirm whether that is the case.

The Convener: I am happy for the clerk to confirm the position.

Steve Farrell (Clerk): That was the early indication that was given to your office, cabinet secretary. There was no indication that you had a further engagement after the committee meeting. It is up to the convener how we progress.

The Convener: I have not been working to the fact that you have to cut away.

Fergus Ewing: Well, we have been working at a disadvantage. I have other engagements today—a whole string of them, in fact, including rural portfolio questions, a ministerial statement and several very important meetings that I cannot miss.

My understanding was that I would be here for the full 90 minutes, but not for an extension. I am, of course, happy to answer further questions very quickly in writing—

The Convener: Maybe we could limit the number of questions to three just now. Rhoda Grant will go first, with a question on ferries.

Rhoda Grant: I was wondering what the 11.6 per cent increase in the Clyde and Hebrides ferry services budget was about. I understand that there was a commitment to looking at decreasing fares on the northern isles ferry services, but I see no increase in the budget for that sort of response.

Fergus Ewing: Mr Baxter will answer that.

Mike Baxter: The total budget for support for ferry services covers the Clyde and Hebrides ferry services, the northern isles services and the Gourock to Dunoon route. There are four components to the increase, the first of which is the rebasing of the CHFS 2 contract. When the tender was prepared, it was based on 2015 timetables. As the position has moved since then, the tender price needs to be adjusted.

The second component is service development. There is an uplift to develop smart ticketing for use under the CHFS 2 contract, and that will be taken

forward in conjunction with Transport Scotland. Thirdly, there is an inflationary uplift related to the consumer price index for the northern isles ferry services contract. The last element, which was dealt with as an in-year pressure, relates to the contribution to the funding of the pensions deficit in the CHFS pension arrangements. Those are the components of the uplift for ferries.

Rhoda Grant: So no money has been set aside for a reduction in fares for the northern isles services.

Mike Baxter: Not at this point, but discussions are on-going with regard to the options for that. It is clear that a straight application of the road equivalent tariff would not be appropriate for the northern isles services, so that work is continuing.

The Convener: There are two more quick questions that will need only quick answers. The first, from Stewart Stevenson, is on concessionary fares.

Stewart Stevenson: The concessionary fares budget is down by £9.5 million. Can the cabinet secretary confirm that that will have no effect on the ability of concessionary card holders to use the bus network?

Fergus Ewing: Mr Baxter has the details of that. There has been substantial variance between the estimate made at the beginning of the year of the total cost of the concessionary travel commitments and the outturn, which has often—for obvious reasons—been substantially less than the estimate. At the start of the year, it is not known what the uptake and usage of this kind of open-ended scheme will be, so budgeting is difficult and negotiations are very delicate. Our job is to get the best result that we can.

Perhaps Mr Baxter can elucidate on the process regarding the discussion with the Confederation of Passenger Transport, which I think is on-going.

Mike Baxter: That is correct. The reimbursement rates are currently being negotiated for next year, and the point that the cabinet secretary makes is absolutely right. Historically, the budget line for concessionary travel has been underspent and the budget for the bus service operators grant, which was mentioned previously, has been overspent, so the two things have balanced out.

There has been an adjustment to the budget to reflect actual uptake. For the current year, the outturn is projected to be of the order of £195 million, which covers the older people, disabled people and young people elements of the scheme. There has been an adjustment in that regard. The programme for government contains a commitment to consulting on the future

sustainability of the scheme, and that will be done early next year.

Stewart Stevenson: Just to be concise, can you confirm that—short of the consultation, which is another matter—the budget provision leaves the entitlement for card holders unchanged?

Mike Baxter: For those who have the card, yes, absolutely.

Stewart Stevenson: That is fine. That is what I wanted to know.

The Convener: Richard Lyle has the last question, which is on Prestwick airport.

Richard Lyle: As the cabinet secretary has other matters to get on with, I will be brief. First of all, though, I welcome the funding increase of £2.8 million in the other air services budget line to support lifeline air services to Barra, Campbeltown and Tiree and to support route development and connectivity.

I know that Prestwick airport handles a lot of freight, but it is underutilised. It is an excellent airport; in fact, I was there a couple of weeks to collect my daughter. What other work are we doing to increase the use of Prestwick airport?

The Convener: I will just condense that question, because I am mindful of what the cabinet secretary has said and would like to acquiesce to his wishes. I think that there is loan funding of £9.4 million in the budget.

Mike Baxter: That is correct.

The Convener: The question that we are looking for an answer to is whether that amount is sufficient to allow the development of Prestwick airport along the lines that Richard Lyle has indicated.

Mike Baxter: The loan funding included in the budget reflects what is in Prestwick airport's business plan, so that is a consequence of trying to protect its business.

Richard Lyle: Is it not the case that the Scottish Government sits on the airport board and, with that money, you will try to develop the airport more? A simple yes or no will do.

Mike Baxter: Yes.

Fergus Ewing: Prestwick airport is extremely important to us, so we are investing heavily in it and working extremely hard with the management to develop it successfully over the coming years. That is not easy, but Mr Lyle and other committee members should be assured that doing that work is extremely important to us.

The Convener: Cabinet secretary, I thank you and your officials for coming today. We had no indication that your timetable was so tight. I would

observe for future years that this hour and a half for scrutinising the budget is effectively all the time that we have between when the budget is laid and when we have to start looking at the committee report, and it is incredibly tight. I will certainly be pushing the clerks to allow more time for the budget, so that the committee can have a full opportunity to ask all the questions that it wants to.

Do you wish to make a brief closing statement before you dash off, cabinet secretary?

Fergus Ewing: I enjoyed the meeting, convener.

The Convener: I wish you and your officials a happy Christmas. I suspend the meeting briefly to allow the witnesses to leave the room.

11:42

Meeting suspended.

11:43

On resuming—

Subordinate Legislation

Road Traffic (Permitted Parking Area and Special Parking Area) (East Lothian Council) Designation Order 2016 (SSI 2016/407)

Parking Attendants (Wearing of Uniforms) (East Lothian Council Parking Area) Regulations 2016 (SSI 2016/408)

Road Traffic (Parking Adjudicators) (East Lothian Council) Regulations 2016 (SSI 2016/409)

The Convener: Item 3 is consideration of three negative instruments as detailed on the agenda. This package of instruments will introduce a decriminalised parking regime in the East Lothian Council area. Following its previous consideration of decriminalised parking regulations in the Highland Council area, the committee requested further information on the income and expenditure resulting from the implementation of such schemes in other local authority areas, and the response can be found in annex A of committee paper 3.

The committee will now consider any issues that it wishes to raise in reporting to the Parliament on the instruments. Members should note that no motions to annul have been received. If no member wishes to comment, can we agree that the committee wishes to make no recommendation on the instruments?

Members indicated agreement.

The Convener: That concludes the public part of today's meeting. We now move into private session.

11:44

Meeting continued in private until 12:11.

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