



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Rural Economy and Connectivity Committee

**Wednesday 17 May 2017**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**RURAL ECONOMY AND CONNECTIVITY COMMITTEE**  
**16<sup>th</sup> Meeting 2017, 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)

\*John Finnie (Highlands and Islands) (Green)

\*Rhoda Grant (Highlands and Islands) (Lab)

\*Jamie Greene (West Scotland) (Con)

\*Richard Lyle (Uddingston and Bellshill) (SNP)

Fulton MacGregor (Coatbridge and Chryston) (SNP)

\*John Mason (Glasgow Shettleston) (SNP)

\*Mike Rumbles (North East Scotland) (LD)

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

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Derek Banks (Glasgow Prestwick Airport Ltd)

Andrew Miller (Glasgow Prestwick Airport Ltd)

Bill Reeve (Scottish Government)

Ron Smith (Glasgow Prestwick Airport Ltd)

Humza Yousaf (Minister for Transport and the Islands)

**CLERK TO THE COMMITTEE**

Steve Farrell

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



## Scottish Parliament

### Rural Economy and Connectivity Committee

Wednesday 17 May 2017

*[The Convener opened the meeting at 09:31]*

### Rail Infrastructure (High-level Output Specification)

**The Convener (Edward Mountain):** Good morning and welcome to the 16th meeting in 2017 of the Rural Economy and Connectivity Committee. I remind everyone to ensure that their mobile phones are turned to silent. Apologies have been received from Fulton MacGregor and Jamie Greene. Jamie will be joining us at 10 o'clock; I think that he has had some problems with transport. No doubt, like everyone else this morning, he is walking to work, as today is walk day Wednesday.

Agenda item 1 is an update from the Scottish Government on the high-level output specification strategy for rail infrastructure in Scotland. I welcome Humza Yousaf, Minister for Transport and the Islands; Bill Reeve, director of rail at Transport Scotland; and John Provan, head of rail strategy and funding at the Scottish Government.

Mr Yousaf will make an opening statement.

**The Minister for Transport and the Islands (Humza Yousaf):** Thank you, convener. I confirm that I walked to work this morning.

Publication of a high-level output specification is a regulatory requirement under United Kingdom railway law. This HLOS sets out our day-to-day requirements for the Scottish rail network for 2019 to 2024 and how we plan to address future capacity constraints. It is accompanied by a statement of funds available, which outlines the level of public funding available to support our requirements.

Although the HLOS is part of a regulatory process, it enables us to provide renewed focus on a high-performing, resilient rail network in Scotland, and gives us the opportunity to challenge the rail industry to deliver improved benefits for passengers and freight customers.

Development work on the HLOS is at an advanced stage. We have consulted extensively with the public and the Scottish rail industry, and have received well over 100 responses to our future infrastructure strategy consultation. Based on that and our experience of the current and previous railway control periods, the HLOS will

have a particular focus on maintaining the current high levels of performance, which are among the best across the UK railway; improving journey times and connectivity for passengers and freight users; continued growth in the rail freight sector; and improving rail's green credentials.

The HLOS will drive positive behaviours across the Scottish rail industry. It primarily lays out our expectations of Network Rail, but it will also ensure that Network Rail pulls together in alignment with the wider rail industry, with a clear focus on delivering our priorities for Scotland's railways.

Since 2007, we have made considerable investment in Scotland's railways, with new lines such as the Borders railway and the Airdrie to Bathgate line, and new stations such as Laurencekirk station and many others. That investment continues with the Edinburgh to Glasgow improvement programme, the redevelopment of Queen Street station and other major projects in our £3.5 billion capital investment programme to 2019.

It is no secret that there have been significant challenges with the cost and the delivery timescales of some of our major rail projects. We have been working with the rail industry in Scotland and the regulator—the Office of Rail and Road—to help manage those projects more effectively. We have also challenged the industry in areas where there has been a clear need for improvement. The result of that work is there for all to see: we have not cancelled or deferred any of our committed schemes; any delays to projects are measured in months rather than years; and we remain within the financial headroom that is set by Her Majesty's Treasury. That is a considerably different picture from that in other parts of the UK railway. The picture is not where we want it to be, but it is considerably better than it was.

However, we cannot have a repeat of project overruns in the next control period, particularly at a time when public finances are under unprecedented pressure. That is why the HLOS will signal a move towards a pipeline approach to the delivery of major capital schemes—a move that was supported by 63 per cent of respondents to our consultation. That approach will bring significant improvement in project specification, development and governance. Importantly, it will also provide greater oversight and discipline around the cost and the delivery timescales of such projects.

The timescales for the publication of the HLOS have, of course, been affected by the UK general election, as we will require certainty from the Treasury on the future funding arrangements for railways. Nevertheless, we are working towards meeting the statutory deadline set by the ORR of

publication by no later than 20 July. The details of the pipeline approach will be set out in our future rail enhancement and capital investment strategy, which will be published by the end of 2017.

As always, convener, I am happy to take questions from the committee.

**The Convener:** The first question is from Stewart Stevenson.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** Before starting, I declare that I am the honorary president of the Scottish Association for Public Transport and an honorary vice-president of Railfuture UK, both of which roles are relevant to the subjects before us.

**The Convener:** Thank you for reminding me about declarations of interests, Stewart. Do any other members want to make a declaration before we go any further?

**Gail Ross (Caithness, Sutherland and Ross) (SNP):** I am an honorary vice-president of the Friends of the Far North Line.

**John Mason (Glasgow Shettleston) (SNP):** I am co-convener of the Scottish Parliament's cross-party group on rail.

**Rhoda Grant (Highlands and Islands) (Lab):** I, too, am an honorary vice-president of the Friends of the Far North Line.

**The Convener:** That seems to conclude the declarations. Please continue, Stewart.

**Stewart Stevenson:** I am sure that the minister is well aware of the keen interest in this matter in this committee and elsewhere. I have three questions, each of which is on a different subject. First, how does the HLOS tie in with wider policies and practice for transport in Scotland, given that railways do not stand apart from other modes of transport?

**Humza Yousaf:** The integration of modes of transport is hugely important. The HLOS specifies the high-level expectation of performance, which can include journey-time improvements, as well as improvements to the passenger experience. Stewart Stevenson is right to point out that a key part of improving the passenger experience is the integration of transport. People who take the ferry service from Ardrossan to Brodick on Arran, for example, often use the railway to get to Ardrossan. Transport integration is important, therefore, but the HLOS is set at a very high level, which is where some of the conversation around performance takes place. The public performance measure is a good measure, but we could look to supplement and complement it. When it comes to other forms of transport, we will look at how to improve the passenger experience; part of that

might be about how we can better integrate modes of transport.

**Stewart Stevenson:** You referred to the integration of ferries and railways, but the majority of ferries are controlled by the Government, so I suppose that both sides of integration are largely in your hands. However, in the case of buses, cars, walking and cycling, integration is fundamentally more difficult. Do you have anything useful to say about how the HLOS might support a wider strategy in relation to those modes of transport?

**Humza Yousaf:** Yes, the HLOS could do that. However, it is important to mention that, to improve transport integration, the franchise agreement requires the train operating company, ScotRail, to work with Transport Scotland and other stakeholders, such as regional transport partnerships; local authorities; ferry, subway, tram and airport operators; and taxi associations. That includes delivering integrated ticketing, which is a huge piece of work that is being taken forward with local authorities and bus companies. For example, funding of £200,000 has been made available to ScotRail to work with the wider transport integration group. Projects that are being delivered include wayfinding and multimodal screens at Oban, Elgin, Inverness and Thurso. A lot is therefore going on to integrate modes of transport. The HLOS will set the high-level specifications, but the franchise agreement already compels ScotRail to work with others to improve transport integration.

**Stewart Stevenson:** My colleague Rhoda Grant will come back to that issue in more detail. I move on to the responses to the consultation. In your preliminary remarks, you highlighted that there was broad agreement on the pipeline approach in the consultation. How will you respond to other areas that arose in the consultation?

**Humza Yousaf:** We were really pleased with the level of response; we were also really pleased to actually go out to various communities. In fact, MSPs got in touch with me to say that they wanted us to come to their constituency if they thought that we were not going to do so. We did our best to go out as much as possible, so my first point is that I am pleased with the level of engagement.

On the 114 consultation responses that we received, there was, as you say, large agreement on the pipeline approach. Seventy-two per cent of respondents also agreed on our vision for rail, which I was pleased about.

We are further examining how we can include climate change in the HLOS, on which there is work to do. There is clear, strong support for rail being included in the emissions reduction targets that we set.

It was also clear that the industry felt that governance and transparency were issues, so there is some work for us to explore in that regard. I have mentioned in public our frustrations with governance and transparency around major projects—they have been well rehearsed with the committee. That is why we want to move toward the pipeline approach.

There was also clear support for ensuring that rail freight was part of the conversation. In fact, there were ambitious targets for rail freight. We will also consider that area in the HLOS.

**Stewart Stevenson:** For my part, I am easily pleased: progress on the Buchan link, perhaps to Ellon first and then on to Peterhead and Fraserburgh, will keep me well chuffed for the next while. However, there will be competition.

Speaking of competition, the Government has made substantial commitments to invest in the dualling of trunk roads. In your opening remarks, you referred to increasingly restricted access to capital. How do you think that that focus on trunk road investments will play out against much-needed investments in rail?

**Humza Yousaf:** As a minister, I have to find that balance, and I think people understand that. The figures in the Transport Scotland 2017-18 budget show that £748 million is to be spent on rail and £823.3 million on motorways and trunk roads. About 4 per cent of commuter journeys are done by rail and 66 per cent are done by car or van. We are spending considerably on rail to encourage a modal shift from the road to rail, but that does not mean that we stop investing in our trunk roads.

This and other committees have noted the Audit Scotland report on the condition of our trunk roads. Although they might be in a better state than local roads, they still need some attention, as the Audit Scotland report rightly says. We cannot take our eye off maintaining our current assets, and we must add to them where necessary. The dualling of the A9 and the A96 will be of huge benefit. To have all our cities connected by trunk roads will be good for our economic growth and will tackle many other issues along the way. It is about finding a balance.

**Peter Chapman (North East Scotland) (Con):** During the consultation, several respondents raised concerns that capacity improvements appeared to be focused on the existing network, rather than on reopening some of the old lines, such as the line to St. Andrews and the line north of Aberdeen to Ellon and Peterhead. I would welcome your comments on that. Are there any plans to reopen some of the lines that were closed several decades ago?

09:45

**Humza Yousaf:** Only yesterday I was reflecting that it has been a year since I was appointed to my role. I have met a number of campaigners who are dedicated and passionate about the railway in their local community. They sometimes get a bit of a bad press, which is unfair, but they are real rail enthusiasts. They have such energy—some of them have dedicated their lives to seeing certain lines reopen, such as those that Peter Chapman mentioned.

Again, there must be a balance. It is important that we strengthen and renew existing assets. At the same time, we should not be closed to investing in new lines. We have a good track record in and have shown a commitment to opening new lines. The Airdrie to Bathgate rail link was completed in 2010 and the Borders line was completed in 2015, for example, and we have opened 14 new stations since 2007.

Campaign groups will be incredibly interested in their rail projects, but I make it clear that they will not see in the HLOS the detail of every single project that we are funding in the control period—it is high level by name and by nature. I am keen to avoid having a prescriptive list of early and unrealistic cost estimates, only for Network Rail to say in three years' time that the costs have doubled, tripled or quadrupled. I am keen to have a pipeline of projects—some of them have been mentioned. Once we are satisfied that there is a robust business case that has been developed to, say, stage 3 or 4 of the governance for railway investment projects process, we will start to release funds, because we will have a better idea of the cost.

The projects that Peter Chapman mentioned have all come across my desk, and we would not discount them from that flexible pipeline approach. I hope that my answer gives him reassurance.

**Peter Chapman:** It does a wee bit, but that work is obviously quite a bit down the line, if you will pardon the pun.

How do you intend to balance value for money between the taxpayer and the fare payer? Do you intend that the fare payer will fund a greater proportion of rail operating costs in Scotland?

**Humza Yousaf:** The short answer is no. We have taken action on fares, and I am proud of that. For example, the majority of fares do not increase above the retail prices index and off-peak regulated fares can increase only by 1 per cent below RPI. Of course, no one travelling on the railways wants their fares to increase but, if they are to increase, at least any increases are capped in Scotland. We have also introduced various initiatives such as the free week, which many passengers claimed this month. We do not expect

the cost burden to be placed on fare-paying customers.

**Rhoda Grant:** Some projects are obviously missing from the pipeline, such as the Glasgow crossrail project. In my constituency, the Kyle line could be shared by road and rail. How do we and local campaigners know what projects are under consideration? With such a flexible pipeline, how do people know what will happen, where a project will feed in and when it will become a priority?

**Humza Yousaf:** That is a good question. I hope that the flexible pipeline approach shows that we will not discount any projects. If we had a prescriptive list of X, Y and Z projects, there would be certainty that other projects could not get in. With such a list, we would have to be rigid and narrow, whereas the flexible pipeline approach essentially means that there are a number of projects to consider and we should not discount any of them. When it comes to making the final decision on whether to fund them, they will have to go through a process.

On the project that Rhoda Grant mentioned, my advice would be to follow the advice of many campaign groups: get the stakeholders together—usually, that would be the regional transport partnership and the local authorities that are involved—work with Transport Scotland on the Scottish transport appraisal guidance process and get the business case worked up. We can only do so much but Transport Scotland is happy to help where it can to guide campaign groups through that process.

My only point about the pipeline approach is that we want certainty about the robustness of any business case plus as much certainty as we can get about the cost, so that we know how much we will have to commit.

**Rhoda Grant:** There has been a problem with the Kyle line and the Stromeferry bypass pretty much all my life. People who are looking at road and rail sharing the line as a possible solution to the problem may work up a proposal but if that then falls way down the list of priorities, it is difficult to put a timeline on when the road will become safe again. Is there a way of prioritising urgent cases in which something needs to happen quite quickly?

**Humza Yousaf:** Rhoda Grant is right to highlight that point, because there is a limited pot of funding. I might come on to the statement of funds and how much is available later, but we clearly have limited funding and a debt ceiling that we cannot go over, so there will have to be some prioritisation. However, the STAG process can help to make the case for a project because it looks at not only the robustness of the business case but whether the area is remote or isolated

and whether the project will help the socioeconomic conditions in that area.

I do not know the intricacies of the line that Rhoda Grant mentioned, but if Transport Scotland can provide further guidance on how to make a case in line with the STAG process, we would be happy to do that.

**Rhoda Grant:** Okay. I will move on to my substantive question, which is about the integration of forms of transport and follows on from Stewart Stevenson's questions.

The Government is involved in the Mallaig line. The ferry comes in 20 minutes after the train leaves Mallaig, and it should be in Transport Scotland's gift to do something about places where people depend on privately operated bus companies waiting on the ferries coming in. The same is true of integrating bus and train services—the issue mostly affects bus and train services, including some local bus services, in my region. How can transport be made more integrated? How can we help people in the area, especially tourists, to travel around? Also, sometimes when subsidised bus contracts are lost, add-on services are also lost. The whole system seems relatively chaotic.

**Humza Yousaf:** I have had a lot of correspondence about the Mallaig to Armadale route with those involved, including the Sleat transport forum and many others, and I share a lot of the frustrations. We are looking for solutions that will allow better integration of transport.

I asked ScotRail about the issue. I was taken into its control room in Glasgow and shown how altering one train by a few minutes could impact on journey times over the entire network, even in parts of it that are not connected to the service in question. The solution might seem fairly simple, and I respect the reason why Rhoda Grant asked the question, but changing things can have an undesirable effect on the rest of the network. I agree with the overall thrust of the question, however. Integration of transport is a vital part of the work that Transport Scotland and I do.

Integrated or smart ticketing is an important part of that agenda. The ability to use one ticket on multiple modes of transport will help with integration and will force some of the commercial operators to talk to the likes of ScotRail and CalMac.

That conversation is taking place, but I urge members to contact me if there are specific areas in their constituency where integration between the various modes of transport could be improved, and I will certainly sit down and speak to the relevant transport providers and we will try to work up a solution as best we can. However, as I said, sometimes the solution that might seem obvious



can have a detrimental impact on the rest of the network. If that is the case, I will be up front with members and say that that is why something cannot be done.

The issue is a huge frustration for commuters and passengers, and I am happy to see what more we can do to mitigate some of the negative effects.

**Rhoda Grant:** I understand that rail times are difficult and that there are knock-on effects. However, surely ferry timetables, which are in the gift of the Government, through Transport Scotland, and, indeed, the ferry companies, could relatively easily be changed by a matter of minutes to allow connections to happen. It is really frustrating for people to have a very long journey that could dovetail much better.

**Humza Yousaf:** When we make changes to summer and winter ferry timetables, we consult local communities extensively. We engage with the ferry user groups on the islands in particular but also with groups on the mainland. We do a lot of consultation. It is also unfair to suggest that CalMac does not have restrictions: it has to deal with crew numbers and their working and rest hours.

My offer in relation to adjustments and when they can be made is genuine. If Rhoda Grant thinks that tweaking a timetable by a couple of minutes could make a huge difference to the people whom she represents, I would be happy to look into that. However, there may be very good reasons why certain things cannot be done.

CalMac is not in the business of trying to be unhelpful. It is a very helpful company. It looks to engage and has a community engagement director, Brian Fulton, who meets communities to have conversations with them. If there is something that we can do, I would be open minded about considering it.

**The Convener:** I am sure that you will get lots of letters not only from members but from the public, who are trying to ensure that services interconnect, as a result of that statement.

**John Finnie (Highlands and Islands) (Green):** On the surface, that is a generous offer for people who get in touch, minister. However, surely it is self-evident that a lot of planning goes into the timetables. It does not need concerned citizens from the Western Isles to explain that in some instances there is no co-ordination. It may be that there are limitations and that nothing can be done, but such situations should not have to be explained if a rigorous assessment was done before the timetables were compiled.

**Humza Yousaf:** I go back to my previous answer. There is an extensive conversation with

communities before the summer and winter timetables are published. Of course, it is not possible to keep everybody happy given the limited number of vessels that CalMac has. Some of the issues are well known and well documented in the public domain.

The popularity, accessibility and affordability of many of our islands as a result of the road-equivalent tariff and the great marketing that the islands have done is a good thing, but let us not pretend that it does not have challenges. Two vessels are being built at the moment at Ferguson's shipyard but they will not come into service until 2018, so we have a limited number of ageing vessels, some of which are nearing the end of their shelf life. That means that we have constraints. We have to manage the network in the summer—it is a little bit easier in the winter—and cascade vessels. John Finnie will be fully aware that some vessels cannot fit into certain ports because of tidal restrictions. There is another conversation to be had about how we standardise some of that.

There are constraints, and it would be unhelpful to suggest that there are not. Extensive consultation is done. The vast majority of people whom we consulted were pleased with this summer's timetable, but some were absolutely not, and they are probably well known to the committee. We continue to work with them to tweak what we can.

John Finnie is right that it does not take concerned citizens to explain the matter. CalMac has extensive discussion with community groups but, given all their ambitions and desires, we cannot always keep everybody happy because of capacity and vessel constraints.

10:00

**The Convener:** Richard Lyle has some questions on the reclassification of Network Rail.

**Richard Lyle (Uddingston and Bellshill) (SNP):** What impact might the reclassification of Network Rail as a public body have on the availability of funds for future expansion and enhancement of the Scottish rail network?

**Humza Yousaf:** The decision to reclassify Network Rail was taken—in September 2014, I think—by the UK Government, the Treasury and the Department for Transport. It is worth reiterating a couple of obvious points. Network Rail's reclassification resulted in its financing and debt being transferred on to the public books, which means that it now has to seek lending from the Treasury rather than from the markets. A number of criteria have to be met now that its debt is on the public books.

I look to my officials to keep me right on the mechanics of the funding arrangements. Essentially, we receive 11.17 per cent of the debt financing. We are within that headroom for control period 5, but the general election means that we cannot have conversations with the Treasury and the DFT about their plans for the next control period. We will look for a fair and equitable settlement for Scotland, as we have done in the past, and we will continue to meet our statutory obligations to fund a high-performing railway. We will have further discussions with the Treasury.

I do not think that I am speaking out of turn when I say that I know from conversations that I have had with the DFT that it has frustrations with Network Rail because, despite its reclassification, a number of projects south of the border have been cancelled or deferred. The process is not just about reclassifying Network Rail as a public body under the DFT's responsibility; it is also about improving Network Rail's governance, transparency and accountability.

**Richard Lyle:** Scottish involvement in the management and funding of Network Rail operations is currently governed by a memorandum of understanding between the UK and Scottish Governments, and by ring-fenced borrowing arrangements that expire in 2019. How well has that worked in practice? What arrangements are being made for borrowing in the post-2019 period?

**Humza Yousaf:** I will try not to repeat my previous answer, but I must say, in fairness to the Department for Transport, that its relationship with Transport Scotland is very good and works well. That does not mean that there are not tensions or difficulties but, in general, the relationship works pretty well. My relationship with my UK counterparts is also fairly positive and constructive. We do not always agree and we will always push further, while they will often push back. However, generally speaking, we have positive engagement on the Network Rail issue. The MOU arrangements work well.

I reiterate that, because a general election campaign is under way, no progress can be made on the statement of funds available. I hope that that will not impact on the publication of the HLOS, but it means that we do not know what the funding mechanism will be. I know that the DFT is exploring various options, including debt financing and grant aid. It will be for the DFT and, ultimately, the Treasury to make a decision on that. All that we ask for and will continue to ask for is a fair and equitable settlement for Scotland.

**Stewart Stevenson:** You have asked for full devolution of rail to Scotland. How might that work in practice? Would the UK's Office of Rail and Road remain the economic and safety regulator?

Would the Rail Accident Investigation Branch remain the body that would investigate accidents? Is that how you see things?

**Humza Yousaf:** Even if we cannot get political consensus around the full devolution of Network Rail, I hope that members across the political spectrum will see that there is value in exploring whether the infrastructure projects element of Network Rail plus, probably, the timetable element should be fully devolved to Scotland.

That is not just our view. Members will be aware of the report from Reform Scotland that strongly backs Network Rail devolution. It was co-authored by Tom Harris, a former transport minister in the UK Government. There is a strong view in that report that, because Network Rail is funded by the Scottish taxpayer to develop and take forward projects on our Scottish railways, it should be accountable not just to the Scottish Government but to the Scottish Parliament. I do not know how many times, if at all, the head of Network Rail has appeared in front of this committee, but I suspect that it is probably not very many times, and I do not know how accountable Network Rail necessarily is as a body.

I believe that that devolution should happen. Even if members do not agree that it should be full devolution, I hope they will agree that there should be devolution at least of the infrastructure projects and preferably of the timetable elements, which are currently done in Milton Keynes.

On the wider question about the regulator, we have a very constructive relationship with the ORR. It has, as it often says, two main functions. One is safety regulation, which is the safety-critical role of the ORR. Taking a Great Britain-wide approach to that is not something that I am opposed to. We would see how far we would get in a conversation with the ORR about that. We have a number of cross-border routes, so it might well make more sense for the ORR to remain the GB-wide regulator with that safety-critical role.

On the economic side, economic regulation should enable an efficient, high-performing rail industry that is focused on the maximum benefits for passengers and freight users, so it might be sensible to evaluate whether the system of economic regulation is fit for purpose—I have already mentioned that there are some real issues around project delivery—or whether that should be devolved closer to Scotland.

On rail investigations, again, I would be open to having a conversation with the appropriate bodies about whether that function is best served UK-wide or devolved to Scotland. I am not politically sensitive about these issues. For me, it is about getting the maximum accountability and transparency for the Scottish taxpayer.

**Stewart Stevenson:** In the Northern Irish model, Belfast and Dublin have been able to co-operate effectively on redevelopment of the line between the two cities. Is that model worth looking at? All responsibility for the Northern Ireland network lies in Belfast.

**Humza Yousaf:** Yes.

**The Convener:** That was a commendably short answer. John Mason is next.

**John Mason:** Minister, I would like to look in more detail at the pipeline approach, which you have mentioned a number of times. Will you explain how it is different from what we have had before? Can you give any practical examples of different decisions that might be made because we are using the pipeline approach rather than what has gone before?

**Humza Yousaf:** In the current system, there is a prescriptive list of projects. We ask Network Rail to give us an early cost estimate of those, it does so and the projects are signed off. A few years later, lo and behold, Network Rail will come back, say that those projects have overrun and, because they were underpriced, ask for more money. That does not seem to me to be an efficient way of doing rail investment projects, and I think that there is a general consensus across the political spectrum that things could be done in a much better way.

That is not to excuse Network Rail. I am extremely disappointed about the overruns that have happened. I will not go back over well-rehearsed matters, but a lot of the issues, particularly around regulatory compliance, could have been foreseen.

That being said, a recent experience of project delivery and feedback to the consultation have showed a good level of support for the pipeline approach. It would give far greater certainty around costs and timescales, which would ultimately benefit not only passengers and freight users but, importantly, the taxpayer. It would also bring greater focus to the industry, with partners working together to examine all the options for improving capacity, such as exploiting timetables and rolling stock options.

On rail investments, a number of projects are currently in development, including new stations at Reston and East Linton. Improvements are being made to the line from Aberdeen to the central belt, in addition to the city deal money that has been provided. Work has been done on the far north line by the far north line review group.

We are saying that, if enhancement projects are proposed or a case is made to reopen a station, instead of closing them off at that stage based on what can and cannot be funded, we should work

with the proposers to develop robust cost estimates and business cases. If the projects come back with a level of detail that gives us confidence, they should ultimately progress to being funded, if it is right for us to do that. No project should be disadvantaged by the planned changes—if anything, the changes might result in projects being agreed midway through a funding cycle or control period. There will be no requirement for a project to be in the HLOS or in X, Y or Z document for it to be funded. The approach is more flexible and open, and is very much based on the need for robust cost estimates.

**John Mason:** There were problems with EGIP around price uncertainty. Under the pipeline scheme, would you delay the start of a project like that until there was greater certainty?

**Humza Yousaf:** I do not like to make comparisons with projects that are already under way, although I understand why John Mason asked the question.

Essentially, if we had agreed to fund the projects that are currently taking place when more detailed work had been done on potential costs—particularly projects involving line electrification, such as EGIP, the Stirling-Dunblane-Alloa line and many others—we would have perhaps not been as surprised at some of the cost increases and delays.

That is not to excuse Network Rail at all. As I said, some of the elements that caused delays and cost overruns—such as the issues with the regulatory railway safety compliance approach that was used—could have been foreseen.

I am not suggesting that using the pipeline approach will mean that Network Rail will never delay another project. As I said, we need to have conversations with and ask questions of the DFT, as we continue to do with Network Rail, about their ability to develop railway projects and see them through to conclusion.

**John Mason:** To be frank, I am still struggling. I accept that you do not want to revisit past projects but, on the other hand, unless we see examples that show how the pipeline approach will be different from what we have done in the past, I struggle to understand how decisions might be made differently.

To use another example, Borders rail has been very successful and I am very supportive of it. However, some people might feel that the project went ahead because local politicians and groups shouted very loudly rather than because it was the best project in Scotland at that time. Would the pipeline approach have made any difference? Would somewhere that was not shouting so loudly, such as Levenmouth, or Glasgow with the

crossrail project, get a better chance under the new system than the old system?

**Humza Yousaf:** You do a disservice to the campaigners at Levenmouth—they shout very loudly about their campaign, quite understandably and rightly. They have met me on a number of occasions, as have those members of the Scottish Parliament who represent their case.

On Levenmouth, conversations are continuing between Transport Scotland and the council. Again, our flexible pipeline approach can help to develop robust cost estimates and a robust business case for that type of project and enable it to progress to the next stage.

10:15

There are specific examples of where we have delivered things slightly differently. The Winchburgh and Queen Street tunnel closures were two of the most significant planned disruptions since the current ScotRail alliance became operational. Both major works were delivered on time and on budget, and experience was gained from the closures. They show that a unified approach in the industry might be much better than the model that has been used in other projects. The Paisley canal line electrification project was delivered under the original ScotRail alliance, involving First, three years sooner than originally planned and at less than half the anticipated cost. We can learn from projects that have been delivered well.

The pipeline approach allows a controlled release of funds, and that is where we want to be. It is not about what projects shout loudest, as the member categorised it. It is about the robustness of a business case, which is about not pure economics and numbers but regeneration and the social impacts that a project can have. Business cases must be robust before we release funds.

We have not published the HLOS, and it is fair to say that we are still exploring internally how we do the pipeline approach. Once the HLOS is published it will have greater detail on that. The rail enhancement and capital investment document, which will be published at the end of the year, will give further detail on the approach.

**The Convener:** Minister, you have been giving very full answers. I encourage you to be detailed but as brief as possible.

**Mike Rumbles (North East Scotland) (LD):** I put on record my thanks to the minister for facilitating a meeting that I had on Monday at Inch railway station with north east of Scotland transport partnership officials. Its purpose was to progress the issue of disabled access, which my question is about. I know that the minister is keen

to ensure that accessible facilities are progressed, and I appreciate that.

My question concerns the proposal to merge several of the rail investment funds, such as the Scottish stations fund, into a general capital budget. Those funds were developed to address particular issues such as disabled access at stations. Can you assure us that if those separate funds are abolished, it will not lead to those issues being somehow lost or subsumed into the generality?

**Humza Yousaf:** I feel that, as Mike Rumbles started by praising me, I should just retire and call it a day. I should end on a high.

**Mike Rumbles:** It does not always have to be confrontational.

**Humza Yousaf:** I will reciprocate by saying that I know that Mike Rumbles has long championed accessibility issues, particularly at Inch station, so I am pleased that yesterday's meeting went well, and I hope that things come to a fruitful conclusion.

On the substance of his question, I am very aware of some nervousness around amalgamating the Scottish station fund, the accessibility fund, the freight fund and other funds into a general pot. I do not want to prejudge the HLOS before its publication but, because of those concerns, I am sympathetic to ring fencing because I can see the importance of the confidence and reassurance that it might give people. There are dangers with ring fencing, of course: it can be too rigid, so we need to see how we can increase the flexibility of some of the funds. I do not want to prejudge because we need to have the conversation that is going on internally but, on balance, I am somewhat minded towards ring fencing. I would be keen to hear members' opinions on that because there are good arguments on both sides of the debate.

**John Finnie:** You have referred in a few of your responses to the need for a robust business case. Emissions from rail account for 1 per cent of all transport emissions. How will rail contribute to a reduction in greenhouse gas emissions over five years from 2019?

**Humza Yousaf:** An important part of our HLOS document will be the specification of new emissions reduction targets, which will be linked to the Government's climate change targets. There will be a requirement for a continuous and sustained reduction per train kilometre, which will be aligned with appropriate ScotRail franchise agreement targets.

As for how we will monitor those things, the shift in passengers from road to rail is important, but we are also putting a lot of work and investment into,

and having a lot of conversations about, moving freight from road to rail. Some exciting projects are very close to materialising, and if we can pull them off, there will be almost a domino effect. We are looking at a variety of sectors with regard to freight, the two most exciting of which are whisky and timber. Those projects will, I hope, help us to reduce our carbon emissions. I cannot tell you what the new emissions targets in the HLOS will be, because we have not published the document yet, but they will be in it.

**Richard Lyle:** Railways should deliver a good passenger experience. As a passenger, I should have a seat, and the train should not only arrive on time but stop at the station that I want to get off at. The current consultation proposes the introduction of new ways of measuring rail performance that would replace or supplement the current public performance measure. What might those new measures be, and how will they be used to monitor rail performance and ensure that I have a good passenger experience?

**Humza Yousaf:** That is a really good question. Passengers often say to me, “Your PPM stats might be very high, but what about the big frustration that is caused by skip-stopping?” I completely understand why people are frustrated by that. All credit goes to Phil Verster, the previous director of the ScotRail Alliance, who put a lot of effort into trying to reduce skip-stopping, especially at peak times. However, even if the incidence was reduced to 1 per cent of trains, people on that 1 per cent would understandably be miffed when it happens.

I will say a couple of things about that. First, I still think that PPM is the right overall industry measure; it is important to have those five minutes for arriving at a destination. Some people have suggested a move to on-time arrival, but that would have a serious impact on those who have mobility issues—there must be some flexibility in timing to ensure that those people can get on and off the train safely. Generally speaking, PPM is probably the right measure, but there is clearly a desire from the public for it to be supplemented or complemented. For example, we could have PPM not just at the end destination but, as Richard Lyle suggested, at intermediate stations. It is important that that performance is measured, too.

It is also important to improve journey times, because that could attract more people to rail and help us to make that modal shift. There are KPIs as part of the ScotRail franchise, but we are actively looking at other measures. Richard Lyle hit the nail on the head with his main point: improvement must be about the passenger experience rather than just numbers on a board.

**Richard Lyle:** Any time that I have travelled on the railway, I have enjoyed it. I hope to do so again over the summer.

The consultation indicates that the Scottish Government will review incentives for Network Rail to improve journey times, capacity and connectivity. What are the current incentives? Are they working? How might they be improved?

**Humza Yousaf:** I will look to officials to keep me right here. It is the ORR’s role to determine the incentive framework for Network Rail as informed by the HLOS documents from the Scottish Government and the UK Government and by the ORR’s own extensive consultation process. There are a number of incentives, outputs and metrics for control period 5. In the next control period—in response to Richard Lyle’s question—we need to focus on journey time improvements, as I have mentioned, and especially on those that can be secured by Network Rail working with the industry through routine practices such as timetable development and network renewal.

I do not want to pre-empt the publication of the HLOS document, but it is likely that it will include a requirement for a regulatory journey time output. That is common sense: journey time improvements will attract more people to the railway.

**The Convener:** Stewart Stevenson will ask the final question.

**Stewart Stevenson:** I have a few questions about the European rail traffic management system. It has been running for a few years on the Cambrian network, and I understand that it is going to GWR and London Crossrail, but it has yet to come to Scotland. It would bring benefits such as better capacity utilisation, and it might be appropriate to consider introducing it north of Inverness, given that there are signalling issues and—as with the Cambrian network—a relatively detached part of the network on which to pilot the system. We have one half of what we need for it: the global system for mobile communications railway—GSM-R—which is now more or less universal. Is it time that we started to introduce the ERTMS in Scotland?

**Humza Yousaf:** I could hear my director of rail, who is sitting to my left, sighing heavily as you spoke, Mr Stevenson—not for any personal reasons, I am sure, but because he might have something to say on the issue. I will hand over to him in a moment.

The development and implementation of the ERTMS across the UK and Europe has generally been quite slow. As yet, we do not believe that there is necessarily a robust business case for it, given that it would be a significant investment, and we would therefore not recommend it for Scotland

at this stage. However, we are working closely with Network Rail to develop an appropriate signalling strategy for control period 6. I will hand over to Bill Reeve, who might want to supplement that answer.

**Bill Reeve (Scottish Government):** I do not have much to add. The European rail traffic management system is tantalising because it moves the control of trains away from drivers having to look at signals on the track and places the authority to proceed at speed in the cab, which is eminently sensible. However, its implementation track record has not been great to date. I have lost track of the number of project managers around Europe whom I have talked to who have been tearing their hair out and crying into their beer over how long and how much it has taken to implement the ERTMS.

We maintain a close interest in the system. However, it was originally designed for very high-speed lines, and a lot of the implementation problems have involved the adaptation of the technology for railways that are similar to those in Scotland. The Cambrian line, after a lot of cost and time, successfully introduced a signalling system that extended journey times and increased costs, but I am not sure that we want to rush into implementation just yet.

**Stewart Stevenson:** I understand that the UK expects to implement the ERTMS by 2044, so we are clearly not rushing into it for the Great Britain network.

**The Convener:** That brings us to the end of our questions. Is there anything that we have missed, minister, that you would like to sum up quickly?

**Humza Yousaf:** I am trying to think of anything that has not been covered, but I do not think that there is anything. Perhaps we did not go into the issue of freight as much as I would have liked.

When the HLOS is published, I will be happy to come back to the committee and have a conversation about it. I thank committee members for their questions and feedback. We are determined to publish the HLOS by the statutory deadline, but we hope to publish it before then if possible. If members wish to feed back any further comments, it would be helpful if they could do so as soon as possible.

**The Convener:** Thank you, minister. I am sure that the public will take you up on your invitation to send letters about how arrangements between different types of transport could be better co-ordinated. I thank you for attending the meeting. I also thank Bill Reeve and John Provan, although unfortunately he did not get to say anything.

I suspend the meeting briefly for a changeover of witnesses.

10:29

*Meeting suspended.*

10:32

*On resuming—*

## **Prestwick Airport**

**The Convener:** Item 2 is an update on the progress of Glasgow Prestwick airport and its financial management. I welcome from Glasgow Prestwick Airport Ltd: Andrew Miller, chair; Ron Smith, chief executive; and Derek Banks, finance and commercial director. Mr Miller, would you like to make a brief opening statement?

**Andrew Miller (Glasgow Prestwick Airport Ltd):** Thank you, convener. I will keep it short.

I am the chairman of TS Holdings Ltd and the chair of the operating board of Prestwick airport. To my right is Mr Ron Smith, who as you said is the CEO; and to my left is Mr Derek Banks, the finance and commercial director. This is our first appearance in front of a Scottish Parliament committee, and I am pleased with the timing, as it coincides with the launch of our five-year plan for the years 2017 to 2022. The plan sets out the action that we are already taking to turn the business around to become a privately owned but profitable and sustainable airport for generations to come.

The document is based on a considerable amount of analysis and hard work, and it articulates the significant amount of work that is already under way. The plan is credible and we feel comfortable that we can deliver it. At the heart of our strategic plan is the determination not only to see the airport return to private ownership, but to create and drive a long-term sustainable business for generations to come that will play a wider role in the Ayrshire economy and the Scottish economy in general.

The airport employs more than 300 people. At Prestwick, we facilitate a 24-hour, 365-day operation, and we support a further 4,500 jobs in the region, a large proportion of which are high value in terms of average salary and the gross value added that is created. In 2014, Audit Scotland reported that the airport contributed £61.1 million to the Scottish economy. Our strategic plan maps out how we can build on that significant contribution and increase employment opportunities in the region, as well as how we can help the Scottish economy in the areas of tourism, exports and the aviation industry in general. We face a number of challenges, including the major reduction in passenger numbers from 1.1 million to 624,000 in 2014. There was also a lack of significant investment by the previous owners, but we are working to address the underspend of capital.

Since joining the board, I have been focused on bringing together a team with the knowledge, expertise and experience to ensure that good governance and processes are in place and that our resources are used effectively to harness the goodwill of stakeholders and drive the business forward. It should be noted that, under the board's direction, the executive team has exceeded expectations on budgets each year for the past two years. Although the financial accounts as of 31 March 2017 are unaudited, they will show that we have achieved a substantial reduction in our operating losses. The turnaround will be challenging and will take time, but it has started and we are moving in the right direction.

We operate in a dynamic and highly competitive environment. There are further unknowns ahead for us, such as Brexit and the outcome of air passenger tax discussions, but we have taken those into consideration in our plans and we believe that our strategic plan is measured and resilient.

Glasgow Prestwick airport has a phenomenal amount of potential. We have a clear plan and we strongly believe that we offer excellent value to potential investors. We have the most diverse service offering of any airport in Scotland, including passenger operations, fixed-base operations, large-scale and specialist cargo operations, aviation emergency receipt and in the future—I hope—access to space flight. We also offer a number of unique advantages. We are the only airport in Scotland with two runways, one of which is the longest in the country and allows us to handle aircraft of any size. We have abundant land—more than 850 acres—and the ability to adapt our operations quickly to the future. Moreover, we are the only airport that is accessible by rail directly to the door, which provides easily affordable and sustainable access to air travel. That also makes us the only airport to get fuel delivered by rail directly from the refinery, which provides national aviation resilience.

We operate 24/7 and we have capacity available, which ensures that Scotland has no constraints on its ability to connect with the global market. We operate the airport on a commercial basis at arm's length from the Government, but we are cognisant of the fact that the lender is the public purse, and the level of transparency and accountability that comes with that is critical to us.

We welcome your questions and we will endeavour to provide as much information as possible.

**The Convener:** Thank you very much, Andrew. The committee has quite a few questions on a variety of subjects, and members might well move around your whole remit.

John Mason will start off the questioning.

**John Mason:** Thank you very much for your opening statement. Can you give us an overview of the airport's performance since the Scottish ministers bought it two years ago and a feel for how it has done? You said that the losses are less than they used to be but, as an accountant, I do not like to hear about any losses. So the airport is still making losses, but what about passengers and freight over the past two years?

**Derek Banks (Glasgow Prestwick Airport Ltd):** Performance over the past couple of years has been better than forecast, although there are still significant losses. Part of the issue is the impairment of assets as we spend throughout the year.

If you will bear with me, I will try to explain the concept of impairment. Normally, one would depreciate an asset over its life, which can range from three years to 40 years, depending on what the asset is, but we have to write that off within the year. That accounts for roughly £4 million a year, which exacerbates the apparent losses. It is quite difficult to make comparisons, although we can do that by using the adjusted EBITDA—or earnings before interest, taxes, depreciation and amortisation—which looks at the operating losses. Although the operating losses have not come down significantly, they have been progressing in a downward direction over the past couple of years.

**John Mason:** Is the most positive thing that has happened the fact that we are making less of a loss than we used to?

**Derek Banks:** Because of the challenging environment that we are in, we will always find it difficult, and we are looking at everything that we can do to reduce costs and to increase income. Over the past three years, military income has increased by 37 per cent, and the occupancy of our property has increased from 58 per cent a few years ago to 95 per cent. When it comes to cargo, we are still struggling; we have maintained the levels of cargo, but they are not improving.

Over every income stream, we are slowly progressing. We experienced a drop in passenger numbers from 1.1 million to 624,000, but that figure increased to 678,000 last year and we are projecting a figure of about 710,000 for this year.

**John Mason:** Some of my colleagues will ask more detailed questions about cargo and passenger numbers and so on. For now, though, can you explain the board situation? I understand that there are two boards. How does that arrangement work? Who does what?

**Andrew Miller:** I will answer that question, if I may. The two boards were created to keep the

shareholder at arm's length because of EU and state-aid rules. The Scottish Government followed the model that was used when the Welsh Government took ownership of Cardiff airport. Some good work was done there, and the Scottish Government decided to follow that in order to keep the business at arm's length. The holding company represents the shareholder, which is the Scottish Government. Ron Smith and I are on the board, along with two civil servants, and it deals with the business's long-term strategic direction and makes sure that it is adhering to the financial plans.

At the operating level, we have all the functions covered as a normal board. The non-executive directors have the correct experience, and I chair both boards. There is a compliance issue from an EU and state-aid perspective, which is why we have the two-board arrangement.

**The Convener:** That leads neatly on to Peter Chapman's question.

**Peter Chapman:** Good morning, gentlemen. My question is about the new strategic plan. Why was a new plan required, given that one had been published as recently as late 2014? How do the two documents differ?

**Ron Smith (Glasgow Prestwick Airport Ltd):** That is a very good question. It is worth noting that, with the tremendous reduction in passenger numbers, which fell very quickly at around that time, we all realised that it was necessary to take a far more realistic view of the numbers and to go into a reset position that would give us a realistic base. It was the view of the non-executive and executive teams that we should take a new, realistic forward look at all aspects of growth and that all our revenue streams should be attacked. We wanted to set a new strategy that was geared heavily towards winning more business across all our revenue streams. The new team put together a new, highly realistic plan with a highly refined focus on what was achievable and with a view to driving the revenue streams to get us into profitability for the long term.

**Peter Chapman:** So the new strategic plan is a more realistic document. Was it driven by the drop in freight tonnage, passenger numbers and the number of aircraft movements?

**Andrew Miller:** The original plan included a figure of 1.1 million passengers, which was the running rate at the beginning of 2014. When I joined the business on 1 December that year, the running rate was roughly 620,000 passengers, so we had to reset the business from the point of view of both future thinking and cost control. As Ron Smith said, it was a case of reset.

**Peter Chapman:** I assume, then, that the question that I ought to have asked was about the



progress that was made in meeting the goals in the original strategic plan. The answer is that those goals were not being met at all—in other words, things were moving in the wrong direction.

**Andrew Miller:** Absolutely. If I were to characterise the situation, I would say that the patient was bleeding and we had to stabilise it. The reset was to stabilise the business, given the change in economic factors driving the falling numbers.

10:45

**Peter Chapman:** You have been saying how difficult things are. In one of our papers, it says,

“The capital plan does not include the cost of replacing the existing primary radar, which must be done within the next five years.”

How much is that likely to cost, and how are you proposing to finance it, if it is something vital that needs to be done in a fairly short time scale?

**Derek Banks:** We have actually started the implementation of the radar; the tower has been built and the equipment has been tested. The work has primarily been funded by the wind farm development funds, in recognition of which we have to maintain the radar for 25 years. If anything goes wrong with it, we have to maintain, repair or replace it. It is being funded by wind farms.

**Peter Chapman:** So you are well on the way to replacing that.

**Derek Banks:** I think that it will be operational later this year.

**The Convener:** I am sorry—I am a bit confused. Can you clarify whether the money is coming from a community wind farm fund or from a wind farm that you own?

**Derek Banks:** It is coming from wind farm developers.

**The Convener:** So it is a development fund that wind farmers have paid into.

**Derek Banks:** Yes.

**Andrew Miller:** Wind farms come with a risk, because of the old technology used in radar. The turning blades stop the radar tracking aircraft—

**The Convener:** I am sorry, but I wonder whether we can get an indication of how much that funding was. I think that people would want to know how much was contributed.

**Derek Banks:** Are you talking about the contribution itself or the cost of the radar?

**The Convener:** The cost of the radar.

**Derek Banks:** I believe that the cost of the radar was about £3.2 million.

**The Convener:** There has been a series of senior staff changes at the airport since 2014. Will that have a positive or a negative effect on performance and on returning to profitability by 2022-23?

**Andrew Miller:** You must consider that when I joined the business, there were early questions about the 2014 plan numbers and performance. We had to make some changes at the senior level to put the right people in the right slots. Some of the people concerned had contracts from the previous owner, and we had to fulfil the legal obligations within those contracts.

**Richard Lyle:** If the convener will allow me, I will set the scene before I ask my questions. I live in Motherwell and I have travelled to Prestwick airport on several occasions to pick up relations. The journey time, roads and rail were excellent, as was the airport. The only problem was, when I arrived at 10.30, I was the only person there, apart from the staff, as I waited for my relations. Other people arrived at about 11 o'clock. I got there very early because of the excellent road and rail travel.

I remember flying out of your airport a number of years ago to go to America. Why has such an excellent airport lost so much business from airlines? I think that there are only a few flights a day—one flight at night, three or four flights during the day—going to Prestwick. It is a national scandal that an airport as good as yours, with all those excellent things going for it, is not as vibrant as Glasgow airport. I was at Glasgow airport on Sunday, taking my son to fly out somewhere, and it was bursting at the seams.

When was the last time a new scheduled passenger airline chose to operate from Prestwick airport? Why has it proven to be so difficult to get people to come there? It is a fantastic airport. Why is it so difficult to get airlines to come to your airport?

**Ron Smith:** I would like to take that question, please. It is a good one; in fact, it has been at the root of my thought process since joining the business. In the good old days, at its maximum, the airport was classified by the Civil Aviation Authority as a small airport. Even in its heyday, when there were 2.4 million passengers, it was regarded as a small airport.

We have lost some business because of some of the airlines' strategic plans. Some have wanted to move—Ryanair is a good example of that. You need to keep in mind that it is the largest people mover in Europe these days and as part of its evolution, it sees itself in many cases as challenging and wanting to be alongside the major airlines.

We have worked hard with Ryanair, certainly in the past few years, to stop any further erosion of

their passenger numbers and, in fact, to start to build up passenger numbers. We have had some success in doing that, as Derek Banks has alluded to, but that is not the end of the story. We are working hard with a raft of airlines where we have identified that we can offer something unique on capacity, time slots, ease of access to Glasgow and the rest of the south-west of Scotland and even into areas in the north of England, such as the lake district.

That is our approach. We are looking at airlines and routes that do not exist in Scotland—or certainly in the west of Scotland—to try to offer that uniqueness that we can handle and to give the capacity and the excellent service levels that people would expect from us.

A lot of the problem comes from the history. The days of British Airways, the transatlantic link, Wardair Canada and the passengers that you referred to that were going to the US and Canada are no longer with us. There is a new generation of operators and low cost is the dominant factor in airline development.

We know that it takes about 18 to 36 months to get a passenger airline committed to a route, and an awful lot of work in between times to massage that across the line; that is exactly what we are doing. We have a number of strong possibilities for new routes and airlines and that is exactly what we are following up on. Our plan takes a conservative but realistic view of how much of that business we expect to land.

**Richard Lyle:** How confident are you of securing new airlines and how important is that in meeting the objectives of the strategic plan? At the end of the day, Ryanair only flies to Barcelona.

**Ron Smith:** No, it does not.

**Richard Lyle:** Does it have other routes? Are there other routes that you can open up for the airlines? How often are you sitting down to talk to airlines and convincing them to come to Prestwick? It is an excellent airport—I compliment you on that—but we have to get our finger out and get something done about it.

**Ron Smith:** If you read my foreword to the strategic plan, you will see that the first thing that I identified when I took on the role was that not enough effort was being put into winning new business. I made major changes to the organisation's structure to bring in specialists on passenger and route development, cargo and freight development and fixed-base operations and military business. We now have people managing those revenue streams and attracting new business; they are the lifeblood of the airport and are the biggest part of the strategic plan.

Page 25 of the strategic plan shows all the destinations that we fly to. We have one or two exclusive destinations that we serve from Glasgow Prestwick. We are making progress. We are far closer to and alongside Ryanair than we have possibly ever been. We are also very close with a number of other airlines on new routes.

Sadly, because of the strong commercial restraints put on us by the negotiations, it would be unwise of me to give any further details on who we are talking to. Indeed, the easiest way to lose a new route would be for such information to enter the public domain. That could scare the airline or, perhaps, the shareholders, many of whom are public limited companies, because the release of that information could affect their stock values.

I would be delighted to come back to the committee to give further details when we can. We could certainly give the full details of the successes that we have achieved over the past 12 months, say, the next time that we sit in front of the committee.

**Andrew Miller:** It is true, Ron, that Ryanair announced a new route to Poland about two weeks ago.

**Ron Smith:** Yes. It is a unique route to the city of Rzeszów in south-eastern Poland. It has been booking remarkably well. It is a fantastic set-up there, because not only is it a high point of aviation engineering in Poland, which means that it will match nicely with our aviation manufacturing business in Scotland, but it is about 100km from the border with Ukraine and 80km from the border with Slovakia. Already, some of the bookings are by citizens of those countries who are using the route as an entry point into the United Kingdom through Glasgow Prestwick. It is an excellent opportunity to show Ryanair exactly what we can do when we are given such an opportunity.

**Richard Lyle:** Is it only Ryanair that flies out of Prestwick or are there more carriers?

**Ron Smith:** It is the only scheduled carrier that flies from Prestwick, but we have other services from there.

**Richard Lyle:** I know you have other services.

I will be in your airport in a couple of weeks' time—I will be picking up my relations again—and might see you around.

**Derek Banks:** Could I just add—

**The Convener:** Yes, but there are a few questions piling up on the back of that.

**Derek Banks:** It takes a length of time to get the airline traffic business in—anything from 18 to 36 months. We are not sitting back waiting for that to happen. We are actively progressing other income streams as well.

**The Convener:** We all appreciate that the last thing that the committee wants to do is frighten potential customers away.

**Jamie Greene (West Scotland) (Con):** I appreciate that many of the discussions are sensitive commercial discussions. However, Audit Scotland's 2015 report states:

"the airport is not viable without Ryanair".

I come from a commercial background and it sounds to me like a tremendous risk for a business to have pretty much a sole customer who is essential for the success of the business. I have seen Ryanair fall out with airports in other parts of Europe. For example, I recall when it pulled out of the Granada route from the UK and the devastation that that caused in the local tourism industry and economy. What are you doing to address the huge risk of having a sole airline that is somewhat notorious for falling out with airports?

**The Convener:** I know that you will answer that tactfully, Ron.

**Ron Smith:** Ryanair is a hugely successful airline, albeit an unusual one.

It is well worth making the point that Ryanair started its overseas business at Glasgow Prestwick when it was still a fledgling airline. As part of that launch into the UK, it established its only heavy maintenance base at Prestwick. Ryanair has since expanded the base and we are in discussions with it about further expansion.

The commitment to Prestwick is strong. There are about 300 to 350 jobs, plus a high number of apprentices, employed in that maintenance and overhaul facility, which is the only one of its type anywhere in the Ryanair network. The fact that we are having a discussion with the airline about further expansion and the creation of more jobs is a strong indicator that it sees a future in the Prestwick facility. It also means that every aircraft in the Ryanair fleet, which is rapidly expanding, comes to Prestwick for heavy maintenance and C-check overhaul.

There is a strong bond that is assisted by a new attitude from the senior management and executive team at Glasgow Prestwick about working alongside Ryanair. There was a vacuum for a long time. We have certainly plugged that vacuum now and have a strong working relationship with Ryanair's senior team in Dublin.

**Stewart Stevenson:** Flying commercially these days is the most miserable experience on earth and it is all down to airports. When I started flying 50 years ago, you parked at the front of the airport and were in the air 20 minutes later. The hassle was almost nil. Does Prestwick have a huge advantage in that it has relatively small throughput at the moment and relatively capacious facilities?

We have talked about airlines; how are we energising passengers to demand services from—I will be as good as I can—an airport with a relatively stress-free departure experience?

**Andrew Miller:** You raise a good point. Costs associated with compliance on, for instance, security related issues, have fundamentally changed and that works against a calm passenger experience. That is legislated, but I take your point. The other area is the retail experience. All airports are trying to achieve higher spends per head because that is the best way of making them profitable.

11:00

When Prestwick airport was designed in the 1960s—I will get to your point—passenger processes were completely different from how they are today. There were paper tickets, and passports were checked and bags checked in with no technology, so the allocation between airside and landside was 70 per cent landside. Today, it is the exact opposite: all the space has to be airside, because that is where airports make the most money. Unfortunately, in the history of Prestwick airport, that switch of land allocation in the building has not taken place. One of the projects that Ron Smith and his team are working on is looking at what we will do if we have more money, given our increasing profitability, and how we can address that significant problem.

The unique selling proposition that we have is that we are quiet and can give the passenger a hands-on experience. The downside is that, to achieve that, we have to create an environment that is conducive to that good passenger experience while, at the same time, being very careful in how we spend our money. The management team have plans for how we are going to address that, but it is very much the case that, as we perform, we get more money, and that is exactly what we have been doing.

We have had generalised upgrades in the building, but the point that you raise is a good one. It is not a comfortable experience—I do not mean at Prestwick; I mean at other airports. It is a very good experience at Prestwick.

**John Mason:** I realise that, as you said in your answer to Mr Lyle, you cannot say too much about detailed routes, but I think that the strategic plan specifically mentions that you are hoping to get a London route again at some point. Can you comment on that at all?

**Ron Smith:** I would be delighted to do that. London is a vital hub for any UK airport, and we are working hard and with a great deal of focus—it is a prime focus—on making London a priority. London is served by many airports and we have a

preference for the one that we would like to establish a route with, but we are working tirelessly to try to establish that London connection to serve the people of the west of Scotland with an alternative, and to give the local catchment area a direct connection to the world.

People will use an airport when it has a flight to where they want to go to or a flight to a hub where they can transfer to get to where they want to go. That transfer connectivity is vital to us, and there is no better place in the UK to have it with than London. We are working tirelessly with a number of the London airports to set that up, and we have conducted some modifications and improvements to both our landside and our airside infrastructure at the airport to cater for a domestic route or routes once we can get one over the line.

Our prime focus is certainly UK domestic connectivity through London, and also European and long-haul connectivity through other airports and airlines that we are targeting around Europe and particularly in North America. All of that is important, but London remains our prime focus as a UK connecting hub.

**John Mason:** Can I ask another question on that, convener?

**The Convener:** Yes—absolutely. I will then bring in John Finnie before you come back in.

**John Mason:** I will play devil's advocate. Given that we have three airports in the central belt, why would I as a passenger want to go to Prestwick when I have Glasgow and Edinburgh airports? Why would an airline want to go to Prestwick when it has Glasgow and Edinburgh airports, which are closer to the population and either have or are about to get rail links? Can Prestwick offer anything unique?

**Andrew Miller:** Ron Smith talked about the market and demand. The CAA statistics show that London is the biggest market for Prestwick's natural catchment area, which is basically determined by asking people, "Is Prestwick your nearest airport?" We know that over 200,000 pax a year from our natural catchment area bypass Prestwick to get to another airport in order to travel to London. They would prefer not to do that.

This is about our securing an airline that might or might not have duplicated assets in the other two airport locations that you have alluded to but which sees an opportunity to try to cut down the travel time, the carbon footprint and so on that are all part and parcel of the analysis.

**Ron Smith:** Just—

**The Convener:** I will bring in John Finnie at this point, Ron, because his question might tie into the answer that you are about to give.

**John Finnie:** Good morning. It was only last October that the Scottish Government enthusiastically lent its support to a third runway at Heathrow; indeed, it was positively salivating at all the benefits that would come to Scotland. I have the press release here, and it says:

"We will now work with both Heathrow and the UK Government to ensure commitments made to Scotland are followed through."

One of those commitments related to

"The potential for a logistics hub to be based at Glasgow Prestwick Airport",

which was described as

"an important part of the Heathrow offer."

What discussions have you had with the Scottish Government on that aspect?

**Ron Smith:** I should say that there is a photograph in the strategic plan of the signing of that memorandum of understanding, which took place at Glasgow Prestwick airport.

There is a commercial understanding that Heathrow will set up a number of supply hubs to support the construction of the new northern runway and some of its additional terminal requirements as a result of the extension of terminal 2 and further satellites of that. The people at Heathrow learned during the construction of terminal 5 that such an operation is very congesting, and as part of putting some of those lessons into practice, they are looking at the supply hub approach. Spreading the supply chain around the UK will get better value for money, and congestion will be reduced by bringing in componentry for the construction process through alternative methods.

We are very much part of that. We were early contenders in talking to Heathrow at a high level. We held a stakeholder review with it that covered local stakeholders in south Ayrshire and, as part of the process, we have been to several events in which we have followed up our interest. We are complying with the process, and we are working with the Government to follow this opportunity.

All that the MOU suggests is the creation of a supply and support hub in Scotland. In our opinion, Prestwick airport would be an ideal location for that, and it seems that Heathrow shares that view. We are not the only bidding party, but we believe that we are in a strong position, and we will continue to drive the process to show that we are a very suitable candidate to be selected to provide the supply hub in Scotland that has been guaranteed in the MOU.

Can you give some more details on that, Derek?

**The Convener:** We will hear from Derek Banks, and then I will take a follow-up question from John Finnie.

**Derek Banks:** As part of the process, we have to register an interest by 31 July, so we are currently working with stakeholders including South Ayrshire Council and Scottish Enterprise to get together a credible bid. As Ron Smith said, Prestwick is only one of the options, but it is a strong one given our links with marine, rail, air and road travel. It makes a lot of sense for the logistics hub to be there.

**John Finnie:** You might sense my cynicism about the whole project, but it is predicated on the assumption that a third runway will go ahead. What prominence is given in your future business projections to the potential for that to happen? In my opinion, it would be wrong to put too much emphasis on it.

**Andrew Miller:** There is nothing about it in the five-year plan. However, I note that the MOU talks about preferred and slot access for any Scottish airport in that new facility.

I understand that it is not a done deal—with all such big projects, we have to plan things well in advance—but there is nothing in our five-year plan in that regard, other than the opportunity that we see to provide the prefabrication hub for air, sea, road and rail that Ron Smith mentioned. After all, Prestwick is very near a very important railhead.

**John Finnie:** I have been granted a further supplementary question even though we are on a busy schedule. I might have noted what you said incorrectly, but I think that you mentioned a figure of 38 per cent for military income. Did you mean that 38 per cent of your income comes from that, or that that income increased by 38 per cent? Which part of the military were you talking about, and what does it get for that?

**Derek Banks:** That is generated income, which has increased by 38 per cent over the past three years. Unfortunately, we cannot divulge what military flights go in and out of Prestwick.

**John Finnie:** Okay. Are you co-operating fully with the authorities on the issue of rendition, albeit that that is perhaps a historical matter from your perspective?

**The Convener:** John, Derek Banks has given me a sort of undertaking on that matter because he cannot really discuss it, although I understand your point. Derek, if you are uncomfortable about saying any more than you have said on that, I am happy with that.

**Andrew Miller:** As the chair, all that I would say is that all military and civil aircraft have to comply with CAA and Department for Transport rules. Any

aircraft that complies with those rules can fly to any airport in the UK.

**John Finnie:** Thank you.

**The Convener:** I am not sure, but maybe John Finnie can follow that matter up with the minister, if he wants to. John Mason has the next question.

**John Mason:** I understand from the strategic plan that the freight market has changed quite a lot in recent years. Can you explain that to us and say whether it is an advantage or a disadvantage?

**Ron Smith:** The freight market that we talk about at Prestwick is the market for dedicated freight, which involves aircraft that are built or converted simply to be freighters and carry specialist freight and cargo. Our sense is that that market is probably in long-term decline. However, we have a plan to cut ourselves a much bigger slice of the market by offering at Glasgow Prestwick airport special services that are unique to Scotland. I am talking about ground-handling services, the right equipment to load unusual and heavy cargo and the ability to turn round large freight aircraft such as 747s and 777 freighters.

The bulk of the part of the freight market that is booming comes in the form of belly-hold freight, which is carried in the holds of passenger aircraft, mostly those flying long haul. For example, Heathrow airport has a rapidly expanding freight business because of its massive capacity for aircraft with belly-hold freight that go all over the world and carry freight almost as a byproduct.

The low-cost carriers do not like to use freight as an income stream, because it slows down their turnarounds. The low-cost airline industry is based on the flying hours of the aircraft and maximising the hours in the sky, so the last thing that those airlines want to do is to increase the turnaround time and reduce the flying time by taking on freight.

As part of our new business focus on winning new passenger airlines for Prestwick, we have identified target airlines that would be interested in the target market of carrying belly-hold freight. They probably have dedicated freight businesses but are swinging more towards belly-hold carrying. That is the type of knock-on effect that comes from good passenger development. However, we are also following up some passenger airlines because we can offer them a specialist freight facility as part of their belly-hold programme.

The situation is therefore not as simple as it might seem, but we are trying to cover both markets by attracting new airlines that will be interested in belly-hold freight and cutting ourselves a much larger slice of the traditional dedicated freighter market.

**John Mason:** I have a supplementary question, if that is all right. Food exports are regarded as a big thing for Scotland and we are hoping to expand that market further. Is that the kind of area that you are looking at, which involves moving products quickly to another market?

**Ron Smith:** The main target has to be high-value products with a shelf life. The prime Scottish exports that meet those criteria are seafood and salmon, and those are the types of markets that we are looking at. We have opened up some dialogue with Scotland Food and Drink about the potential to have specialist facilities and really tap into that market. It is currently handled by excessive road transport down from Scotland to Heathrow, with products often then being exported right over Prestwick on their way to North America. We have analysed the market and the potential that we are trying to tap into.

**Jamie Greene:** Before posing my question, I express my support, as an MSP for West Scotland, for the many local jobs that Prestwick airport creates across the west of Scotland and particularly in Ayrshire. There is no doubt that there is a lot of good will across the country for Prestwick airport and a desire to see it succeed and grow successfully. Naturally, however, we want it to do so in a way that gets the best value for the public funding that it is receiving.

In recent months and indeed years, we have heard a lot about Prestwick being used as a spaceport, but there is little detail and little awareness of where we are with that. Will you elaborate on the discussions on that, who is making the decisions, the numbers that are involved and so on?

11:15

**The Convener:** I would be delighted if you could answer that, Derek, but I ask you to be as brief and focused as possible.

**Derek Banks:** I will try my best. On the process, a few years ago, we commissioned a study to look at the feasibility of developing Prestwick as a spaceport. The feasibility study identified development costs and estimated that it would cost about £5 million to build the required infrastructure for the first launch with one operator. That is a relatively low sum for the development of a spaceport, so we believe that it is a viable option.

On the funding requirements, the issue is one for the UK Government to take forward. We have submitted five applications to the UK Space Agency for its recently announced funding route. Unfortunately, that process is being delayed because of the purdah period for the general election, but we hope that at least one of those

applications will proceed. I cannot talk too much about that because those bids are commercially sensitive, as they include the operator's costs and income levels.

**Jamie Greene:** Would the spaceport be used for space tourism? What type of use is envisaged?

**Andrew Miller:** That is always how it appears in the papers, but the real demand is for satellite launches for global positioning system applications. That market is growing by three or four times a year. We have a major manufacturer in Clyde Space Ltd, but all the satellite manufacturers have to truck their goods to eastern Europe, in the main, and wait for a space on a vertical launch. The spaceport would involve a horizontal launch of a pod up to about 55,000 feet. There is phenomenal demand for that method, which involves a phenomenal reduction in costs. The satellite industry says that it is looking for a low-cost launch facility, like a low-cost airline.

**Jamie Greene:** Are you applying for the £5 million of capital investment that is required from the UK Government, the Space Agency or the Scottish Government? I am not sure where that money will come from.

**Derek Banks:** We have put in submissions to the UK Space Agency programme to try to recover some of that money.

**Jamie Greene:** I move on briefly to some of your other sources of revenue, such as fixed-base, business and military aviation. How do you plan to grow those revenue streams?

**Ron Smith:** That is an excellent question. Growth in those areas is part of the overall growth process. Military aviation is a good example of something that can be developed quickly. As I said, gaining new passenger routes can take anything between 18 and 36 months, but military business can be won in a substantially shorter timeframe—in days or weeks. Our new business development manager for fixed-base operations, which include military operations, has been in North America talking to potential customers, and the flights that he has managed to win have landed at Prestwick before his return. The lead time for winning military business is much shorter than the one for winning passenger business, and the improved earnings figures from military that Derek Banks mentioned reflect that.

On that basis, we will continue to work on the military side. It is all about meeting people, securing contacts and reassuring people that we have in place the ground services and the technical and fuelling capabilities that attract such business.

**Andrew Miller:** A good example is our close working with the SSE Hydro entertainment facility.

Five dedicated 747 freight aircraft used Prestwick for a two-night performance at the Hydro—I will not mention the star's name. Previously, that business would have gone to another airport down south. We worked tirelessly with the Hydro management team to secure those aircraft, which were for costumes only, for that period of time. That is a good example of how we have improved the revenue streams through better business development processes.

**Jamie Greene:** That is very helpful—thank you.

**Richard Lyle:** You mentioned Ryanair's servicing facility at Prestwick. Could you not interest other companies in using that facility? You have two long runways. Could you not get other companies to service their planes at Prestwick?

**Ron Smith:** That was very much part of our ambitions, certainly at the start of last year, and I am pleased to say that we have successfully done that. We have attracted the well-known aerospace maintenance and overhaul organisation Chevron Aircraft Maintenance into what was our largest vacant hangar facility at Glasgow Prestwick. It had been vacant for a long time—10 years, I believe. We had been paying rates on the property, whereas we now have no rates to pay and a tenant paying us rent. The swing has been enormous.

We are putting more and more into infrastructure development, focusing on maintenance, repair and overhaul, in order to drive that income stream, which we see as very good. We have a natural attraction for airlines based on the fact that Prestwick has a long history of aviation maintenance and, if we go back far enough, manufacturing. That is of big interest to airlines for their maintenance programmes. It is certainly part of the focus.

**Richard Lyle:** My final question is on passenger numbers. Ryanair expects to carry 675,000 passengers from Prestwick in 2017—by my calculation, that is more than 13,000 people a week—yet the new strategic plan predicts 710,000 passengers, which is nearly another 700 people per week. Depending on the size of the plane, that is equivalent to two extra planes. Why is there a difference between what you are predicting and what Ryanair is predicting?

**Derek Banks:** Ryanair's prediction of 675,000 passengers was for 2016-17, and we actually achieved 678,000. The 710,000 prediction is for the current financial year.

**Richard Lyle:** You are making that prediction because you are introducing the new route to Poland and because you have all the extra slots that other airports do not have. It is a bit like the beer advert—you can reach places that other

airports cannot. For those reasons, you are predicting that you can do better this year.

**Derek Banks:** Yes. We will take any activity that Ryanair wishes to give us, and we are approaching other airlines as well. The conversations that we are having with other airlines are really positive and are progressing well.

**Rhoda Grant:** The strategic plan talks about harmonising pay and conditions for staff. What impact will that have on staff salaries and conditions?

**Ron Smith:** That is a very good question. The situation at all airports is quite complex, in terms of the number of positions and salary spine rates. The situation at Glasgow Prestwick is particularly complicated and has, for some time, been operating on the national living wage standard for some levels. We are trying to simplify that; we have just launched a process that will simplify the salary scales and make them far more transparent. We are looking at taking on board all the pledges that are required under the Scottish Government's ideals. We are not quite there yet, but we want a clear and structured salary spine on which everyone fits and everyone can see where they fit.

We have had a very strong programme, in which we have had what we have called an internal roadshow. Glasgow Prestwick is a very big site, and the management team has gone out to various parts of it and presented what we are trying to do, in consultation with our staff and our unions, to ensure that they understand exactly what we are doing to get everyone into a far more simplified system and move everyone forward. It is our objective to move to the Scottish living wage, but the complexity means that that will take some time. We are sharing that information in our engagement process with our staff and unions, and are making good headway. We see that as being vital, although it is complicated to do and will take time.

We are trying to ensure that we have the necessary amount of funding available to cover that without spending any more from the public purse. That in itself is complex: to move to the Scottish living wage today would require a sum that we simply cannot afford. Our staff understand that, and they understand that we are funded by the public purse. As part of our staff engagement policy we have a very strong communication programme to ensure that everyone knows what is going on, and that we are trying to move to paying the Scottish living wage within the next three years.

**Rhoda Grant:** Will there be any wage cuts for staff? A lot of support for the airport is provided

because of the impact on the local community, and take-home pay is very much a part of that.

**Ron Smith:** We understand that clearly. As I said, many of our staff are already on the UK living wage, so cutting that would not be an option. We are trying to get better efficiencies from our staff and are starting to consider what savings we can make in our employment costs. However, we are not considering reducing salaries or moving contracts to zero hours. We want to be a good model employer, but we want to do so affordably, within the public sector.

**Mike Rumbles:** It has been interesting to hear what has been said and to read the information that we have received. As we have heard, the airport is not viable without Ryanair, which is increasing its number of routes from Edinburgh airport. The number of flights is down, passenger numbers are down and the amount of freight is down, according to the information that we have here. Mr Smith said that passengers want to fly from where they want to go from—the airport has to be where passengers want to leave from. I therefore have to ask a fundamental question. With other airports expanding, is it not simply that Prestwick airport is in the wrong place to attract new business, whether from passengers or from airlines? The information that we have received is depressing reading, to be frank.

My questions will focus on the finance. When will taxpayers ever get back the money that has been invested in your company?

**Derek Banks:** I will clarify some of those issues. Passenger numbers are growing and have been growing for the past couple of years. In addition, freight traffic has stabilised.

**Mike Rumbles:** But the number of passengers has fallen, has it not?

**Derek Banks:** It has. However, since the Government took ownership, numbers will increase from 624,000 to a predicted 710,000 this year. The amount of cargo has been static at around 11,500 tonnes per year over the past couple of years.

We are doing as much as we can to turn the business around, and we are looking at every opportunity within that to consider our various income streams. For instance, property accounts for almost 20 per cent of our income, whereas the number of passengers and its indirect impacts account for only 33 per cent of our income. A large part of our business is based on other income streams, which we are trying to grow. We are growing them all at the same time, and some are more challenging than others.

**Mike Rumbles:** That does not agree with the private papers that have been given to us, which

say that annual passenger numbers have fallen, that annual air transport movements have fallen and that annual freight handling has plummeted from where it was a few years ago. I am not confident that we are going to get our money back.

**Derek Banks:** I can confirm that passenger numbers have increased and that the cargo numbers have stabilised over the past couple of years. I would be happy to send you the figures.

**Mike Rumbles:** If you can provide more figures than we have—

**The Convener:** The graphs that have been produced for us show, as Mike Rumbles suggests, that the number of transport movements has decreased. It is difficult to tell exactly from the graph, but I think that the increase in passenger numbers is just above a flat line—it is not much more than that. The amount of freight that is handled is definitely down, according to our figures.

**Derek Banks:** Our accounts will be published around September this year, and they will include a lot of the figures. I would be happy to provide the information in advance of that.

**Mike Rumbles:** I am asking a more fundamental question, which I think has been skirted around so far this morning. We have three major airports in the central belt. When people spend their money on a service, they want to go to an airport and get on a flight to their destination. It seems to me—I am being radical here, and I seem to be the only one who is voicing the problem—that you are in the wrong place.

**Andrew Miller:** May I address that? Prestwick is the closest airport to my home and is where I would like to fly from. Last year, 1.6 million passengers fell into that category. However, we take only between 600,000 and 700,000 of those passengers, which means that a potential 1 million passengers are currently not exercising that catchment right to fly out of Prestwick. That is the number 1 macroeconomic dynamic that we are following: the job of the management and business development team is to find those 1 million incremental pax as part of the process. I therefore beg to differ with you: the airport is not in the wrong place.

**Mike Rumbles:** I hope that that is correct and that my impression is wrong.

**Andrew Miller:** Those are Civil Aviation Authority statistics.

11:30

**Mike Rumbles:** I return to my fundamental question about finance. If you are so positive



about the future of Prestwick, when, as taxpayers, will we get our money back?

**The Convener:** That is partly tied in with the question that I want to ask. Maybe we can clarify the issue. I think that you said that the 2017 accounts are unaudited at the moment.

**Derek Banks:** That is right.

**The Convener:** You have a book value for the assets?

**Derek Banks:** We do.

**The Convener:** Can you disclose it?

**Derek Banks:** I would rather not do that at this point, because that information is commercially sensitive.

**The Convener:** Could you give me the book value of the assets in 2016?

**Derek Banks:** The asset base is actually very low. The answer depends on whether you are talking about the assets in the accounts or the perceived assets as they would be valued at a later date.

**The Convener:** Okay. There must be a way for me to get the answer to the question what the value of the asset is in 2016—not on income stream but on book value.

**Derek Banks:** Because of impairment, the book value obviously does not recognise fully the assets that have been purchased over the past few years. Over the past three years, we have spent roughly £12 million on the airport, but that is not recognised as an asset within the business. I am not trying to avoid the question; it is very difficult to give an appropriate answer.

**The Convener:** I think that the issue that Mike Rumbles and I are both trying to get to the bottom of is that, when the book value of the assets is disclosed and we understand what it is, if we add £39.6 million to it figure—my understanding is that that is the value of the loan up until 2022—the value of the airport should exceed that amount. My question—I guess this is what Mike is asking, too—is whether in 2022 the value of Prestwick airport will exceed £39.6 million plus the current value of the airport. If it will not, one must ask whether the investment is a viable proposition from a business point of view.

**Derek Banks:** The value certainly has the potential to do what you have described.

**The Convener:** Every business would like to think that it has the potential to do that, but is it realistic to expect that it will happen at Prestwick?

**Derek Banks:** With the plan that is in place over five years, and looking at the market at this point in time, we believe that that is possible.

**Mike Rumbles:** Convener, I would like the witnesses to respond to my question. In what year will the taxpayer get their money back from the investment in your company?

**Derek Banks:** In the strategic plan, we will return to profitability in 2022. Thereafter we would, depending on cash flows, look to start repaying the loan.

**Mike Rumbles:** You will start repaying the loan in 2022.

**The Convener:** So, in 2022, what will your cash flow be? I want to understand the situation.

**Derek Banks:** That is the point at which we would break even. Beyond that is when we will start to repay the loan.

**The Convener:** How long will it take to repay £39.6 million, which is the investment between now and 2022 based on your strategic plan?

**Derek Banks:** Based on our projection, which we have done over 25 years, we reckon that we will do so about 10 years after that date.

**The Convener:** So in the 10 years post-2022, the airport will generate £39.6 million, plus interest plus running costs.

**Derek Banks:** Yes.

**The Convener:** Gosh! That is a lot of money.

**Stewart Stevenson:** There is just one advantage that it would be helpful to confirm. Is it correct that Prestwick airport has the lowest impact from weather of any airport in the UK?

**Ron Smith:** Yes.

We were asked earlier about the attractiveness of Prestwick to airlines. One of the things that we have is capacity. We have been asked why people would want to go to Prestwick when they can catch a flight from airports in the central belt. The simple answer is that a lot of airports in the UK—the two in the central belt in particular—are fast running out of capacity. We have capacity in abundance, which is one of the things that is starting to attract the airlines. We can give them not only the landings and slots that they require but their preferred timings for the slots. It is not for me to say, but I think that it would be pretty difficult today for an airline to get a new slot at its preferred time at Edinburgh airport. We have that advantage, so we are trying to exploit it as part of building the attractiveness of Glasgow Prestwick to the airlines.

**The Convener:** I will let Richard Lyle come in very briefly before I ask Gail Ross to ask the final question.

**Richard Lyle:** I agree that Prestwick has the slots and the time. However, to go back to what

Mike Rumbles was asking about, if I stay in Motherwell and want to fly out of Edinburgh airport, it takes me some time to get there, or if I want to go Glasgow airport, it takes me some time to get there. However, with the new M74 extension, the M8 upgrade, dah-di-dah-di-dah, it takes less time to get to Prestwick airport. That is where you are falling down, guys: you are not advising people that they can get to Prestwick quicker than they could a year ago.

**Ron Smith:** We have launched a new campaign of communications about travel times on the rail networks, on the national coach networks, and for driving. The issues that Mr Lyle just referred to come into play in that campaign. For example, we have half-price rail travel from anywhere in Scotland to Prestwick airport, but getting that message across has been quite difficult. We are redoubling our efforts to communicate with the market in order to ensure that people understand our message.

For people in much of the catchment that Glasgow airport regards as being its own—south-west Glasgow, Newton Mearns, Whitecraigs and so on—it is much easier to get to Prestwick airport than to Glasgow airport, despite Glasgow airport being a bit closer. Getting that message across is the challenge for us: it is certainly one that we are very focused on.

**The Convener:** Thank you. I give the final question, if I may, to the deputy convener, Gail Ross.

**Gail Ross:** Thank you, convener. Good morning, panel. We have spoken a lot about Ryanair, and certainly Michael O'Leary has been very vocal about how he thinks Brexit will affect Scottish aviation. Can you tell me how leaving the European Union will affect Prestwick airport?

**Andrew Miller:** That is a very good question. We have what I call a Brexit risk overlay in the business. Brexit was not something that we had planned for in the previous plans for the business, and it will have a significant impact. Clearly, however, no one individual is absolutely sure what the outcome will be. If we go back to the dark days of bilateral agreements, with restricted access through duality and one country providing capacity and pricing against another country, the size of the market will be significantly reduced. Ryanair and easyJet have capitalised on the freedom within the EU whereby any airline from any nation can fly anywhere it wants. That turned Ryanair into the biggest airline in Europe through first-mover advantage, and easyJet similarly benefited.

Both those low-cost airline businesses are somewhat exposed, one could say, in terms of the way forward. Both airlines have taken measures to mitigate that, which are in the public domain.

Carolyn McCall, who is the chief executive officer of easyJet, suggested that it will incorporate the operating licences of its whole fleet in Germany so that it can, through German location and air operating certificate licensing, access the other markets.

A lot of airlines are working on the Brexit outcome, but no one knows what it will be; it is just a matter of looking at all the issues and preparing robust plans. That is before we even consider the issues to do with the US dollar against the UK pound. About 75 per cent of low-cost airlines' cost are denominated in US dollars, so a reduction in the currency by 20 per cent would add 20 per cent to 75 per cent of their cost base. That is an impact that we are feeling just now in foreign exchange alone, before we even consider things such as fuel.

It is very difficult to navigate a way forward. However, we have Ron Smith and his team and a broad range of experience, and I have dialogue with people in the aviation industry—that is my background and I know a lot of people in the aviation industry. We are in dialogue constantly on the way forward, but nobody knows the one and only path, which is the problem that we have.

**Gail Ross:** Thank you.

**The Convener:** Those were all the questions that we have for you, but I suspect that we will be asking you to come back. Andrew Miller said that it is his first visit to the committee; I am pretty sure that it will not be his last. I suspect that when the accounts are audited and published, the committee might wish to see you again. I thank the panel for coming to the meeting and for being so open and honest in bringing us up to speed with what is happening at Prestwick airport.

**Andrew Miller:** Thank you. We extend an invitation to any or all members of the committee to visit Prestwick airport in order to get a three-dimensional understanding of the business. We invited the previous session's Infrastructure and Capital Investment Committee, to which we reported: it had planned to come but did not. We are open and transparent and will welcome you if you want to visit us.

**The Convener:** I am sure that members of the committee would like to visit Prestwick airport. The committee clerks will try to tie that up and arrange a visit for a time that suits the majority. Thank you very much indeed.

*Meeting closed at 11:40.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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