



OFFICIAL REPORT
AITHISG OIFIGEIL

Rural Economy and Connectivity Committee

Wednesday 20 June 2018

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 20 June 2018

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RURAL ECONOMY AND CONNECTIVITY COMMITTEE
19th Meeting 2018, 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)
*Kate Forbes (Skye, Lochaber and Badenoch) (SNP)
*Jamie Greene (West Scotland) (Con)
*Richard Lyle (Uddingston and Bellshill) (SNP)
*John Mason (Glasgow Shettleston) (SNP)
*Mike Rumbles (North East Scotland) (LD)
*Colin Smyth (South Scotland) (Lab)
*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stewart Adams (Glasgow Prestwick Airport)
Susie Braham (Scottish Government)
Ian Forgie (Glasgow Prestwick Airport)
Derek Mackay (Cabinet Secretary for Finance and the Constitution)
Andrew Miller (Glasgow Prestwick Airport)
John Scott (Ayr) (Con)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Rural Economy and Connectivity Committee

Wednesday 20 June 2018

[The Convener opened the meeting at 10:03]

Decision on Taking Business in Private

The Convener (Edward Mountain): Good morning, everyone, and welcome to the 19th meeting in 2018 of the Rural Economy and Connectivity Committee. I ask you all to make sure that your mobile phones are switched to silent, please.

Under agenda item 1, we consider whether to take in private item 7, on the committee's approach to pre-budget scrutiny, and anticipated future items, including consideration of the committee's approach to the Transport (Scotland) Bill, its approach to pre-budget scrutiny and options for post-legislative scrutiny. Do members agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Digital Government (Scottish Bodies) Regulations 2018 [Draft]

10:04

The Convener: Item 2 is consideration of an affirmative Scottish statutory instrument. The committee will take evidence from the Cabinet Secretary for Finance and the Constitution. A motion recommending the approval of the instrument will be considered at item 3. Members should note that there have been no representations to the committee on the instrument.

It seems unusual that the committee is considering the SSI, given its subject matter. We are responsible for the digital infrastructure element of the digital strategy, for which Mr Mackay has overall responsibility, but not for the specific items that the SSI addresses. It seems that the remit of some of our subject committees is out of synch with some of the portfolios of members of the Cabinet. That does not mean that I do not welcome you, Mr Mackay.

The Cabinet Secretary for Finance and the Constitution (Derek Mackay): It is good to see you, too, convener.

The Convener: Before we continue, I ask members whether there are any declarations of interest.

Kate Forbes (Skye, Lochaber and Badenoch) (SNP): I do not know whether this is a declaration of interest, but I point out that I am the parliamentary liaison officer to the Cabinet Secretary for Finance and the Constitution, which is something that I have to admit to when speaking in the chamber.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): As we are talking about digital matters, I should say that I am a member of the Institution of Engineering and Technology and a member of the Association for Computing Machinery.

The Convener: I formally welcome Mr Mackay, the Cabinet Secretary for Finance and the Constitution. I also welcome, from the Scottish Government, Susan Braham, head of data sharing and access, and Graham Fisher, head of constitution and civil law. Would you like to make a brief opening statement, cabinet secretary?

Derek Mackay: Thanks, convener. First, to give further clarity, one of my responsibilities in Government is for digital public services, and I suppose that that is partly the reason for my appearance at the committee this morning. Digital

goes across portfolios in the Scottish Government, but that is the area on which I lead.

I welcome this opportunity to discuss the draft regulations, which are of a technical nature. They offer the potential to improve the delivery of public services to the people of Scotland, and I would like to start by setting them in context. Part 5 of the United Kingdom Digital Economy Act 2017 provides for the sharing of personal data between specified public bodies that are set out in schedule 4 to the act, for the purposes of improving public service delivery. The regulations, which were laid in the Scottish Parliament on 17 May, add specified Scottish bodies to schedule 4, to enable those bodies where appropriate to share personal information in order to improve public service delivery. I highlight that the powers permit but do not compel data sharing. Data protection law, which governs how personal data is processed and shared, of course continues to apply.

The act and the regulations made under it together provide for data to be shared only by specified bodies and for tightly defined and specified objectives. The objectives are being created in separate UK regulations, the Digital Government (Disclosure of Information) Regulations 2018, which were laid in the Westminster Parliament, also on 17 May, and which we have cited in full in the policy note.

The Scottish regulations propose to add a limited number of bodies, which are the Scottish Government, Scottish local authorities; Skills Development Scotland and persons providing services to those bodies to share data for—and only for—the purposes of a specified objective. For the bodies that are being listed in the regulations, those include a multiple disadvantages objective, a television retuning objective and a fuel poverty objective. The measures are supported by further safeguards, including an information sharing code of practice, which sets out principles, processes and guidance for the use and disclosure of information under the powers.

The Scottish ministers will expect public authorities and other participants in an information sharing arrangement to agree and adhere to the code before any information is shared. Failure to have regard to the code may result in public authorities losing the ability to disclose, receive and use information under the powers. We welcome the powers that the UK-wide legislation brings and we look forward to further collaboration with the UK Government to ensure that the full potential of the legislation is realised in Scotland.

I hope that those comments have been helpful. I am of course happy to take any questions.

Stewart Stevenson: Paragraph 21 of the policy note that has been provided to us states that one of the organisations with which there may be sharing is Her Majesty's Revenue and Customs.

Given that the instrument clearly relates to UK legislation and that it appears to be cross border in its scope, it would be helpful if the cabinet secretary could confirm that the intention is that the data sharing be across relevant bodies in all the Governments that are affected by this.

Derek Mackay: I am interested specifically in the Scotland-UK relationship. There is a crossover between reserved function and devolved function. If it was just devolved, we could legislate and bring regulations to Parliament for our own interests, but clearly there is joint working with the UK Government where there are reserved functions, as is the case with HMRC. Given that interrelationship with devolved Administrations and the UK Government, all public bodies related to that would be expected to co-operate but, as I said, this is about permission, not compulsion.

Richard Lyle (Uddingston and Bellshill) (SNP): In the past, different agencies did not have people's information and there were a lot of problems, so I welcome the fact that there will be information sharing. However, when information is shared, will an individual be able to ask each and every agency that has their information what it holds on them?

Derek Mackay: The draft regulations in no way interfere with, change or amend anyone's individual right to seek that information. Within all the safeguards that we now have in relation to data sharing and information and data protection, specified bodies are allowed, for a specified purpose, to share particular information for a good reason, and all the usual checks and balances are there. Indeed, the Information Commissioner's Office has been consulted on those very specific proposed regulations and actions as well, and in no way does the instrument impede individuals' rights to seek that information.

John Mason (Glasgow Shettleston) (SNP): It is welcome that there is a lot of privacy—that is considered to be very important—and I welcome the questions that other members have asked.

I was previously on the Finance and Constitution Committee and I am currently on the Economy, Jobs and Fair Work Committee. My experience on those committees has been that it is a big problem trying to get data out of UK agencies such as HMRC—the Scottish Fiscal Commission and others have not been able to get data out of those agencies. Do you anticipate that the instrument will make it easier for the Scottish Government and Scottish public bodies to get hold of UK information that would be helpful to us in a

whole range of areas? You said that it would only permit them to share information. Will they not be required to give us the information that we need?

Derek Mackay: I have several points to make. I am bringing to the committee an instrument under the affirmative procedure to permit those bodies to share information. That is what I am seeking approval to do from the committee and, ultimately, from the Parliament. There is a separate question around how far the named agencies go to use the powers. Those are areas that we, as parliamentarians, may well wish to encourage, such as bodies sharing information in campaigns to tackle multiple deprivation, so I think that there is good cause for the regulations to be introduced.

I would expect, because of the good principle behind them, that agencies would participate. The instrument provides a gateway, essentially. My role is to provide that gateway and to open the door to that permission to exchange information appropriately, carefully and within all the privacy checks and safeguards that have been outlined in the documentation that you have. It is a good thing that controls around people's data have been tightened up and that it cannot be used willy-nilly across the public sector, even when there is a good cause for doing so. Any use of such data is specific to the bodies, the conditions, the safeguards and the objectives. Within that, Mr Mason, I would like to think that, if there is good cause, agencies will participate in that.

We have clearly outlined the purpose of the instrument. Whether information is to be shared to tackle multiple deprivation or for other good reasons, I am sure that members would ask me, with a different hat on, "How do we target young people who are not in education, employment or training?" Right now, we run campaigns and various agencies do their best to target those people, but if we can actually get the data about which young people are most excluded, it gives us and our agencies—appropriate agencies such as Skills Development Scotland—a way to contact them using that data. I cannot see why people would object to that, but that is in the context of expecting agencies to comply with the principles that public bodies should be pursuing. If I become aware that lack of participation is an issue, I will certainly raise it, as appropriate.

10:15

That responds to the essence of the question, but it goes beyond what I am seeking for the committee to do today. The Government will want to be proactive if data is not being shared in a fashion that meets the policy objectives, which I think that we all agree on. At least two members of the committee have a specific request about HMRC and income tax returns. I should not delve

any further into that, but an example has been raised by Mr Stevenson—he is pointing to himself, so I am not exposing him—about data sharing, seeking assurances that bodies are sharing the information that should be shared with the Scottish Government appropriately. That is a whole separate subject and not one of the specified functions that I am asking the committee to approve today.

Jamie Greene (West Scotland) (Con): I have two quick questions. The first is about the seven-week consultation that you ran. Can you share with the committee any feedback, positive or negative, that you received on your proposals and how you addressed it? The second question relates to the policy objectives. Section 19 concerns television retuning and states:

"Scottish Local Authorities are listed against the TV retuning objective in order that they may share data with Department for Work and Pensions (DWP) and the Secretary of State for Defence".

Do you have any idea what that means or what the practical implications may be? It is hard to work out its consequences.

Derek Mackay: Those are both fair questions. There was an appropriate consultation exercise and there was no great objection. I draw attention to the fact that the UK information commissioner was satisfied with the proposals. That is important and potent. The officials can clarify whether any changes were made in light of the consultation, but the level of return did not give me any cause for concern. I will also ask officials to cover the TV retuning issue.

Frankly, when I look at the list of priorities in profile, some clearly have greater importance to the Scottish Government at the moment, such as targeting people not in education, employment or training and tackling multiple deprivation.

I posed the same question about why we have to do something about retuning. The answer was that it is preparing for a situation in which the UK Government makes changes on the matter, so that we are in an advanced position for sharing information, if it requires assistance. However, the more substantial functions of the instrument are those on tackling deprivation and targeting young people who are more exposed to worklessness.

There were no major concerns from the consultation, but may I bring in officials to add to that?

The Convener: Bring in whoever you would like to clarify that, cabinet secretary.

Susie Braham (Scottish Government): We received four responses to the consultation: two were from individuals, one was from the Information Commissioner's Office and the other

was from the Welsh Government. In terms of specific feedback, the ICO identified the need to explain the nature of the data sharing that would be permitted and to be specific when describing particular instances of data sharing to support public service delivery. In response, a privacy impact assessment has been carried out. That has been issued and should be part of your committee papers. Specific sharing in the future will be subject to further privacy impact assessments.

Derek Mackay: To be clear, there was no suggestion that we needed to change what we were asking for, just that the necessary assessments were undertaken. That has been done and should be in the pack provided to the committee.

The Convener: Do you want Graham Fisher to come in, cabinet secretary, or has Susie Braham answered the question?

Derek Mackay: She has covered it all.

The Convener: As Jamie Greene is content we will move on.

Stewart Stevenson: Could the officials confirm that HMRC has a role in retuning TVs because it knows which people have free TV licences? It is an attempt by local councils to support such people as part of the migration from analogue TV to digital. Particularly in the early days of that, there were quite a lot of frequency changes and some of our older citizens did not find it easy to retune their equipment. It would be helpful if somebody could confirm my suspicion that that is actually what it is about.

The Convener: Cabinet secretary, if you do not know the specific answer to that, I am very happy for you to write to the committee afterwards.

Derek Mackay: As I said earlier, I will write and give the committee the detail of that. Some of what we are doing is simply including the devolved bodies in the framework of policy where it interacts with the reserved functions, of which broadcasting and HMRC are, of course, examples. If the committee wishes further information on that very specific issue—which may not come as a surprise to me—I will provide that.

The Convener: Neither is it a surprise to me. Thank you for offering that.

If no-one else has any questions, perhaps you would like to make a closing statement on the instrument, cabinet secretary.

Derek Mackay: I wish only to say that all the necessary checks and balances are in place. We are in a very strong policy environment in relation to data and data sharing, but there are sound objectives behind the regulations, which will help us to progress with data sharing in the fashion that

has been agreed with the UK Government, and with legislation at both Westminster and the Scottish Parliament. I am happy to proceed.

The Convener: Thank you, cabinet secretary. We will therefore move on to item 3, which is formal consideration of motion S5M-12602.

Motion moved,

That the Rural Economy and Connectivity Committee recommends that the Digital Government (Scottish Bodies) Regulations 2018 [draft] be approved.—[*Derek Mackay*]

Motion agreed to.

The Convener: I thank the cabinet secretary and his officials for attending today.

I will suspend the meeting briefly, to allow the panel to depart and witnesses to change over.

10:22

Meeting suspended.

10:24

On resuming—

Glasgow Prestwick Airport

The Convener: We move to agenda item 4, on Glasgow Prestwick airport. Do any members want to declare an interest in relation to the airport?

Stewart Stevenson: I have an interest in relation to the potential for military flights, as I am a northern area committee member of the Highland Reserve Forces and Cadets Association, which has an interest in the Royal Air Force.

The Convener: Thank you.

I welcome John Scott MSP to the meeting. The airport falls within his constituency.

This is an update on Glasgow Prestwick airport and its financial management. Several committee members, including me, attended a tour of the airport's operational facilities on 4 June. We were extremely grateful for the opportunity to do so.

I welcome from Glasgow Prestwick airport Andrew Miller, the non-executive chairman, Stewart Adams, the chief executive officer, and Ian Forgie, the director of finance. Andrew, would you like to make a brief opening statement of up to five minutes?

Andrew Miller (Glasgow Prestwick Airport): Yes, thank you, convener.

Stewart Adams, who is on my right, is the interim chief executive. He joined us in October 2017 and has a very impressive background of aviation experience, most recently as the managing director of Loganair and, prior to that, of Tiger Airways in Singapore. He is very well qualified to sit on my right-hand side.

On my left is Ian Forgie. One of his great strengths is the fact that he worked at Prestwick airport in the late 1990s and early 2000s. He has rejoined us to play a part in the team.

I thank the committee members who came to Prestwick for their two to three-hour visit some two weeks ago. I hope that it gave them a greater understanding of what is happening on site with the enterprise. I assure the committee that our investment in the business is matched not only by a relentless pursuit of new business but by a commitment to achieving maximum efficiencies in investment and the reduction of operating loss.

In the financial year 2017-18, we handled 702,000 passengers, which was an increase of 3.5 per cent on the previous year, and we continue to press hard for new customers. During the 12 months of last year, we approached 23 individual airlines, and the team's work continues to attract

more business into the Prestwick area. We have had 17 meetings with cargo airlines in the past 12 months.

The prolonged uncertainty over Brexit and its full impact on aviation is disrupting air passenger travel in the United Kingdom along with investment. At the same time, there is an on-going process of consolidation in the aviation industry, which has major implications for the pattern of airline bases and the location of key personnel as well as consequences for airport infrastructure around the UK.

In addition, there is frustration over delays in the reduction of air passenger duty, which was scheduled to begin at around 50 per cent and gradually reduce to zero over a four-year term. Clearly, that has not happened, and the committee will be aware of the reasons why it has not happened.

The increase in our total gross revenues, from £13.6 million in 2016-17 to an anticipated £18.2 million in 2017-18, is quite substantial; however, that last number is unaudited. We are yet to prepare the year-end accounts and place them before the minister, who will place them before the Parliament towards the end of this year.

10:30

Freight traffic and military flights, private aviation, engineering and service activity continue to develop and show robust signs of growth and a consequent increase in revenues, and they will do so in the future years of the business. As Mr John Scott knows, we have added Chevron to our engineering mix at the airport and it employs nearly 50 people. It is a new enterprise that we have managed to seduce into our enterprise, and it is performing very well. In addition, we have secured the services of three new non-executive directors whose background and experience is quite significant, not only because of their independence but because of their background and experience in aviation on a global basis.

Despite the challenging operating budgets that we have had, we have very little outsourcing of services. We are a fully integrated business providing services to all our enterprises without outsourcing, and we work in an area that employs 4,000 people. Despite the challenging operating budgets and very little outsourcing of services, we are committed to paying the Scottish living wage and we are in negotiation with the trade unions on how we can move that forward to achieve our 2020 commitments.

I thank the committee for the opportunity to speak here today. I am sure that you will have some questions about why the market environment has changed, and I can give the

example of fuel in that regard. Since I have been the non-executive chair of Prestwick airport, fuel has hit a low of \$45 a barrel and a high of \$80 a barrel. Fuel costs for airlines can be between 50 and 65 per cent of their operating costs, which has had a significant impact on their bottom line. We must be cognisant of that, because the DNA of airports is a reflection of the DNA of the airline customers who fly into and out of the airports. We must be cognisant of the issues that are driving the airline business.

That is a brief introductory overview, but it gives the committee a balanced sense of the challenges and opportunities that are presented to management. Despite the shadow of the factors that I have highlighted, which covers the whole of the aviation sector, I firmly believe that Prestwick airport has a sustainable future as a distinctive, multifaceted aviation centre and that such a centre can be a major benefit to not only the Ayrshire economy but the Scottish economy.

The Convener: Thank you. I am sure that there will be a series of questions for the witnesses. I remind you to catch my eye if you want to answer a question. If none of you catches my eye, I will catch the eye of one of you. When you are answering a question, I ask you to keep looking at me because that helps me to bring the next person in at the right moment.

Richard Lyle: Like the convener, I enjoyed the visit on 4 June. I am impressed by your new board and, as I have said previously, I am a supporter of your airport. However, like others, I would like to know why air transport movements are down, passenger numbers are down and freight handling numbers are down at Prestwick airport. In effect, the numbers have remained static over the past few years while nearby competitors have seen significant increases. We need to know why that is the case and what action you are taking to reverse the situation.

Stewart Adams (Glasgow Prestwick Airport): The passenger numbers for 2017-18 show a very small growth over those for 2016-17 of about 3.5 per cent, but we are not deluding ourselves that that is a number to be proud of. Freight tonnage is up by about 3.5 per cent as well, so there is modest growth in both areas. Nevertheless, there is much room for improvement.

When I came into the business only seven or eight months ago, with my knowledge and background I reviewed the target list of the airline customers. We changed the approach and tried to take a higher-level approach to the chief executive level of various airlines, to understand the issues that they have. However, our main challenge at the moment is that, although the airline industry is booming and capacity is growing, the number of operators is reducing.

As Andrew Miller mentioned, over 12 months we have approached 23 separate airlines about passenger flying. Some have shown interest. We had a great deal of interest from a Cypriot operator, and we put together a package for it that it was happy with. The commercials all stacked up but an operational issue meant that its pilots could not operate this summer, which was disappointing. We are trying to get it back for next summer.

I joined the business with no history of it. I was an airline man through and through, and I walked in on day 1 with no preconceptions whatsoever. I was impressed with the level of ability in the business. Although it is tired in places, the business infrastructure is in far better condition than I thought it would be. If I were an airline, would anything put me off flying passengers from Prestwick? No. However, the environment is very difficult, given the strength of Edinburgh and Glasgow airports. A lot of the bigger carriers, such as easyJet, are reasonably settled there and they have shown no inclination to expand or take some of their operation to Prestwick—or anywhere else, for that matter. It is hard work. We have a business development team that works constantly in that area.

There has been some growth on the passenger and cargo side, and it is encouraging that the other revenue sources for the business all show signs of increase. We have an extensive property portfolio, and we have gone from about 50 to 90 per cent occupancy. Some areas are growing significantly. The fuel supply that we provide to private customers is on the increase, too. There are some success stories within the overall numbers, but passenger numbers need to increase, and that is difficult at the moment.

Richard Lyle: When we met you on our visit, you said that you will not see an increase in passenger numbers. I take on board what you have said about the airlines. I attend cross-party groups for airports, and they are all saying that they need more slots. You have loads of slots. I was at your airport at 11 o'clock at night—I was waiting for my daughter to come back from Barcelona—and, apart from the staff, I was the only person there.

In some ways, you have answered my second question. What are the barriers to Prestwick airport attracting new airline customers, and what needs to be done to overcome them? Could you offer a better service or cheaper landing fees? You tell me.

Stewart Adams: I inherited an attractive commercial package from the previous board, which is as good as I have ever seen in my time in the aviation industry. Commercially, we are as attractive as any other airport in the UK. It is not as

though we have a high tariff that is putting off potential customers—far from it.

In addition, we work in partnership with South Ayrshire Council, which sits at various meetings with us and airline customers and asks how it can help. We are trying to create packages that go outwith the normal packages that an airline would expect to see from an airport. However, at the moment, most airlines seem to be entirely settled with the operation that they have at other airports. They make money there, and there is a risk to moving some of it and cannibalising their Scottish activity. I fully understand that approach.

We need to adjust our thinking. The low-cost model in eastern Europe has increased a lot, so we are trying to attract some of the eastern European low-cost carriers through direct contact with high-level executives, but it is difficult.

John Mason: My question follows on from Richard Lyle's line of questioning. It has been reported that a link to London is important. Is that a possibility? Are you looking into that? Is it important?

Stewart Adams: As far as I am concerned—I remind you of my background—I consider that we can sustain a London service. A London service is vital, and we have the catchment around the airport to justify it.

As I said, when we consider the sheer quantity of flights between Glasgow and London, it is difficult. We approached a number of carriers recently with a package in order to attract a London service. There is no point in having one service a day; we need multiple frequencies—three or four per day—for the business traveller, which is a fair degree of commitment from an operator. It is work in progress. Nevertheless, I certainly think that the airport can justify a London service.

Andrew Miller: There was an Irish and UK aviation conference last week at Olympia, and two carriers, Flybe and easyJet, had Prestwick to Heathrow on their long-term development plans, as part and parcel of the Heathrow hub project, in which we are involved. There is guaranteed access for Scotland to slots at Heathrow, and we know that the airlines have pencilled us in for the future. That is a fairly slow-burn project, but we are working on it.

John Mason: If passengers are the challenge and you are making progress in other areas, such as selling fuel to the military, what would the airport's position be if you just dropped passengers altogether and focused on freight, military and so on? Would that make the airport more profitable or less profitable?

Stewart Adams: We have just started a major exercise in which we are reviewing all the revenue sources in the organisation and allocating fixed costs against them, to get a better understanding of the areas of the business that are performing—I have no doubt that some perform reasonably well—and those that are a drain on the resource. That is work in progress, and the cost of the passenger operation will be identified as part of that work.

John Mason: You cannot say right now whether the passenger bit is making a profit or a loss.

Stewart Adams: As I think I said to committee members when you visited the airport, it is clear to me that the passenger side of the business does not make money.

The Convener: You were very open and helpful on our visit, but you should not assume that all the information that you provided has come back here—we did not keep a record. I remember the conversation in question, but it may be helpful to other committee members if you repeat what you said.

John Mason: If the airport is trying to grow freight, does that mean that the existing operators must get a bit bigger or that you must bring in a new operator who will use Prestwick as a base?

Stewart Adams: Ideally, we would like both. We are seeing significant growth from our Cargolux operation at the moment, because, although Cargolux has not increased the frequency of movements, it cancelled a service that had been going to Stansted, so a lot of the Stansted cargo now makes its way up to Prestwick and departs on Cargolux aircraft from there. There is an increase in tonnage, which is where we make our money, on existing movements.

We have also employed a well-known retired cargo industry expert, who lives 10 minutes from the airport, and he has managed to open certain doors in the cargo industry—it is a very niche market. Discussions are taking place about the capabilities at Prestwick, which are unique, certainly in Scotland. We can handle the largest aircraft that anyone can throw at us and we can handle very specialist loads. I am extremely impressed by our cargo capabilities.

It is about getting the message out that we are here, we are open for business and we are very capable.

John Mason: When we visited, you said that you could unload a plane and get the freight off it much quicker than Stansted can.

Stewart Adams: It is clear from some of the discussions that there is frustration about the length of time that it takes for freight to clear

customs at some other airports. We can clear customs very quickly. The Cargolux aircraft comes in and is offloaded, and the lorries are loaded instantly and depart within an hour. We must sell the benefits of the easy transition that we can offer.

The Convener: When we were at the airport, I was impressed by the closeness of the railway connection. I think that you are bringing in your fuel by rail rather than by pipeline. It seems to me that, given the great freight capacity that you are talking about, a simple addition that would make Prestwick stand above other airports would be a connection to get rail freight into the airport. Do you agree that that would be a significant advantage?

10:45

Andrew Miller: It is a significant advantage, as you say, in the opportunity it provides. The connectivity of freight from rail to the airport is not at 100 per cent. However, rail and sea connections were part of our Heathrow hub project bid—that was about connecting all the dots to make sure that we could ship prefabricated pieces to the third runway down at Heathrow. Security of supply is a good thing. The other good thing is that slightly less than a third of our passengers use the rail connection to come to the airport, so there are environmental considerations. We are the only airport in Scotland that can achieve that, which is absolutely fine. As you say, from a fuelling perspective, the security of supply of direct shipments from the east coast—from Grangemouth—is really important.

Freight connectivity and getting the correct and proper connections is an embryonic issue, but it is part and parcel of the new runway at Heathrow.

Jamie Greene: I will revert to the previous line of questioning, which was on the costs of the passenger operation. It is fair to say that Prestwick airport has been receiving a substantial amount of loan funding from the public purse for nearly five years. Why, to date, has no one done any analysis of the cost of running the passenger operation? Why has that work only just started? If, after doing that piece of work, your suspicions that that is a loss-making part of the business ring true, would you recommend to the strategic board the cessation of that element of Prestwick airport's operations?

The Convener: When you answer that question, please stick to the examination of the viability of passenger numbers, because we will come on to the loan funding issue, on which there might be some dissent from other members of the committee. Please stick to how you will report on the viability of passenger numbers.

Stewart Adams: I cannot say too much about the processes or what was done before my time at the airport. There are management accounts and indicators, so we are not entirely without information on the issue, but I need a far more detailed assessment of the true costs—not only the obvious costs, such as staff and infrastructure costs, but the overhead costs. We have decided that we should re-examine the costs as part of an overall review of the whole business. I have been provided with various numbers that I will retest, because that work was done some time ago. It is a multifaceted business with numerous revenue sources, so it is key that we understand the associated costs for each part of the business. We have those numbers, but I am having them rechecked.

Jamie Greene: Convener, neither one of my questions has been answered.

The Convener: You can push on the passenger numbers but not on the loans.

Jamie Greene: It is not about the finances. Mr Miller has been around much longer than Mr Adams. My first question was why no one has done that piece of work to date—that question was not answered. My second question was, if the numbers are true and the passenger part of the business is indeed loss making, would you suggest to the strategic board that that part of the business should stop and that you should focus on the more profitable sides of the business?

Andrew Miller: I will answer those questions because I have been around for more than three years. When I came into the business, it surprised me that our energy bill was not mapped to the business's lines of activity. The electricity bill was not mapped to the terminal facilities or the business's assets. We had to install meters around the plant to get subsets of the total picture to build up lines of activity in the business, revenue lines and cost lines, and map those to the balance sheet in terms of the assets to get a better understanding of where the costs lay. There was more of an aggregated approach to the business.

Purely on the electricity supply, some surprises came of that exercise. That was just one element of about 50 to 70 elements that we are wrestling to ground. My learned friend on my left—our financial whizz—is helping us with that particular exercise.

Ian Forgie (Glasgow Prestwick Airport): I have been in the business for only six weeks.

Andrew Miller: Eight weeks.

Ian Forgie: It probably just feels like six months. [Laughter.]

I was in the business in 2000, 18 years ago, under a very different framework, as Andrew Miller said. Coming into it afresh, I wanted to really

understand what is going on in the business streams—exactly as Jamie Greene has said. The position is not clear to me, coming from outside, so it is early days. We are undertaking work to really understand the business streams and see where the profitability and the loss-making sides of the business are in order to make a recommendation to the shareholder later in the year.

The Convener: Were you surprised that that information was not available when you arrived?

Ian Forgie: It has only been eight weeks, so I am just getting up to speed. The information is not in the form that I am used to seeing or as clear as I would expect. From my experience of running businesses, I would expect the board to have better information in order to run the business.

Peter Chapman (North East Scotland) (Con): You are looking for new opportunities for growing freight. I have a suggestion that you might or might not have considered. One of Scotland's greatest success stories is food and drink, and we export thousands of tonnes of farmed salmon to the USA every year. As you well know, the salmon is produced in the north-west of Scotland and goes in a lorry down to Heathrow. As I understand it, the vast bulk of that fish is exported via Heathrow, having passed your airport on the way south. Is there an opportunity for you to get involved in that marketplace? That amount of freight going to the USA every year is significant.

Andrew Miller: I have the most experience in that area. Mr Chapman is broadly correct that there are substantial movements of fresh seafood, which tends to go by road, is live and is carried in marine tanks. The consolidation point in Larkhall, which is near Mr Lyle's constituency, receives about 30 to 35 trucks a day. Brine tends to be incompatible with freighter services because of issues with salt water and corrosion.

The member is right that the market for smoked salmon and so on is substantial, with exports going to not only the United States, but Asia. The issues are 365-day consistency of supply and consistency of quality. I am not saying that the Scottish market does not provide that consistency, but there are multiple providers not only in Scotland, but in other regions, that consolidate the process in order to provide that consistency of supply.

We have approached some of the players. I have even been to the halibut production plant on Gigha, which is a fascinating facility. We have had discussions with some of the producers. We have even done some left-brain thinking and asked how we can improve our chances. They told us, "Put a smoking house at the end of the runway, because that is when we will go between fresh and

preserved." The market producers are very diverse, but they consolidate and that would be a good opportunity to make the switch in a consolidated way. It was not a silly suggestion.

We have had dialogue with the chief executive of Scotland Food & Drink and with some of the freight carriers. The drink goes by sea and some of the preserved fish products also go by sea. It is about how we attack that.

Stewart Stevenson: I want to explore with the panel potential ways in which to expand and develop the business. In particular, I want to identify any constraints that might be for the Government or others to address, because if we can identify those constraints, we can do something about them.

I will pick one or two things that have come up. We talked about the prospects for rail freight coming in. Are there any gauging issues on the rail network that might inhibit the delivery of containers? I know that much of Scotland's rail network is difficult for freight. If there are issues, have you had discussions with Network Rail about regauging? I have several questions, but let us take them one by one.

Andrew Miller: I cannot answer that technical question. I know that the rail yards—most of the rail yards in John Scott's area are redundant—were part and parcel of the multimodal hub Heathrow proposition. The major opportunities for the business are beyond freight and are to do with the spaceport proposal and the Heathrow hub, which we are actively working on.

The biggest issue for Scottish suppliers is having to consolidate supply at the railheads at Prestwick; multiple suppliers would have to consolidate. I will be honest with you—freight access to the very northern parts of our dear country is somewhat limited and fragmented. That is an issue.

Stewart Stevenson: We have W11 and W9 gauging up to Inverness nowadays. I will leave that one with you and move on to one or two other points, because I do not want to make a meal out of something that is not going to be digestible.

The one thing that I have not heard about in any discussion is whether you have been discussing options with tour operators. A majority of tours are now air tours, but you are also relatively adjacent to Greenock, which has some of the world's largest cruise liners coming in, and clearly a lot of cruising is intermodal, particularly in relation to aviation. Have you been talking not only to tour operators in general but to the cruise industry in particular about flights?

My very first flight out of Prestwick was in 1972. It was a Sovscot tour on an Aeroflot charter, which

involved a Scottish firm using a foreign airline. That may relate to your discussions with eastern European airlines.

Stewart Adams: Interestingly enough, our discussions got quite advanced with the Cypriot airline, and we involved local travel agents and tour companies to try to encourage them to come to Prestwick. To be honest, the response was very good. They thought that there was good demand for a seat-only market. A lot of Scottish people have accommodation or own houses or whatever on Cyprus, and the idea was to push Prestwick as a seat-only option. The operators in Glasgow sell packages rather than seat-only options.

We work closely with tour companies. We have not made direct approaches in relation to the type of traffic that you mention, but it is on our list. We are bolstering the commercial team with a new commercial director, who will probably be in post within the next month, and that is certainly on the list of things that we will be asking them to explore.

Stewart Stevenson: What about cruise liners? Some of the cruise liners carry 2,500 passengers. Clearly, if Greenock is the start point or the finish point of lots of people's cruises, it would be good if you could get a couple of hundred people from each liner on a plane back to the States. I am not trying to tell you how to do your business because I cannot do that, but I want to be sure that you are pursuing all avenues. That is another avenue to consider because surface travel between Greenock and Prestwick, for example, is predictable and pretty stress free, compared with some of the alternatives.

Andrew Miller: You are absolutely right. A lot of changes have happened since the 1970s; I remember them very well. I used to work for British Airways and I was on the last direct flight from New York to Glasgow Prestwick airport in the early 1980s. There has been a change in distribution and in the product, and there have been additions to the market.

Distribution has changed because of the internet, but the specific market that you are talking about is driven by inbound international traffic. There is a growth in the cruise market, undeniably. There is an accelerator effect because of the reduction in the value of the pound against the key currencies for that inbound market, which is providing a short-term stimulus. You can see that in the difference between Glasgow and Edinburgh in terms of current performance.

11:00

We have no substantial inbound market into Prestwick. The outbound market is sun, sea and sand, with a very small percentage inbound. We currently have no access to long-haul international

services. We have been dealing with some of the companies—I do not want to mention their names. There has been a migration from the low-cost short-haul model to the low-cost longer-haul model. Four or five airlines are playing in that space. Some companies, such as International Airlines Group and its Level airline, have taken a sharp intake of breath and changed to a low-cost long-haul model because of the current situation with the biggest player in the market, which has some issues with the strength of its balance sheet.

Stewart Stevenson: You are particularly well placed for long-haul business because of the size of your runway and your excellent weather conditions. You already deal with a lot of long-haul cargo business, particularly ad hoc cargo flights. Is that a marketing advantage in trying to get some of the charter long-haul flights to come to the airport in the first instance? That would create an environment in which scheduled carriers might consider the opportunity on the back of traffic that is built on charter flights.

Andrew Miller: That is true. You are absolutely right, and that is in the DNA of Glasgow Prestwick airport. In the beginning, if you wanted to fly internationally, as a matter of Government policy, by instruction—it was part of the bilaterals—you had to do it out of Glasgow Prestwick airport. However, the market has changed. Runways have lengthened, other airports have developed and the deregulation of that process has driven much of the volume and activity to other airports. There is a balance between inbound and outbound.

We do not have the bilaterals to help us to control the business, but the issues are on our agenda. We have spoken to some of the longer-haul airlines as part of the mix of the 27 to try to encourage them to come to Prestwick. Inbound traffic, especially from Asia, is not sensitive to the distance between the airport and the city. As you probably know, some groups with the major tour operators in the south-east of England think that they are in the centre of London when they are in hotels around Acton or Streatham.

You make a great observation and we are working with the carriers involved on the matter.

Mike Rumbles (North East Scotland) (LD): I will ask about finance. According to the annual accounts that you have submitted to Companies House, you made an operating loss every year for the past nine years. You made an operating loss of £24 million in the last four years for which you submitted accounts, which coincides with the period going back to the Scottish Government buying the company for £1. The position has hardly changed from the previous four years, in which you made an operating loss of £25 million. As I understand it, you have now received a total

of £40 million in loans from the Scottish Government, as the shareholder.

I was going to ask when the Scottish taxpayer will get their money back from the investment in Prestwick airport, but it looks to me like the Scottish taxpayer will never get their money back. Do you agree?

The Convener: Ian, it looks like, after eight weeks, you will be answering that question.

Andrew Miller: Well, Ian has the numbers but I can talk in generalities around them.

Ian Forgie: My analysis is that, in the past three or four years, the business has been exactly the same as it was before the Government acquired it. That roughly equates to the £38 million of investment in it. However, you are right to ask when we will be in a position to repay that cash, Mr Rumbles. We first need to return the business to a profitable position, which has always been the strategic plan. We need to analyse the business better to understand where its profitable parts and loss-making parts are and make a decision as to what we do next. We are putting that together for the board.

Mike Rumbles: I do not think that you will be able to answer this, but I ask, forlornly, in what year you think that the Scottish taxpayer might get their money back.

Ian Forgie: I cannot answer that question.

Mike Rumbles: In the four years before the Scottish Government took over the company, you made an operating loss of £25 million. Since then, you have taken a £4.5 million loan in the first year, £6 million in the second, £10 million in the third, £9.6 million in the fourth, and £9.4 million last year. Therefore, in the next four-year period, you made the same operating loss, and I have not heard anything so far today that gives me any confidence that the company will at any time be in a position to make a profit. My next question, therefore, is about the loan that the Scottish Government has given your company, which is repayable on demand. What happens if the Scottish Government comes to the same conclusion that I have—that the company is unprofitable and that it is throwing good money after bad—and it wants its loans to be repaid?

Ian Forgie: We would not be able to repay that loan.

Mike Rumbles: So what happens?

Ian Forgie: The company would be wound up.

The Convener: One thing that confused me when I looked at the accounts, as I know Mike Rumbles has done, was that the bottom-line value of the assets at Prestwick airport has remained constant for five years, and that that value is

considerably less than the loan. That includes any money that has been used to improve the fixed assets. That is a strange way of accounting and one that I, as a businessman, have never been used to seeing. You have a company that is valued at less than the money that is put into the fixed assets, and that value is nowhere near the size of the loan. If you could comment on that, it might help Mike Rumbles to get the answer he needs.

Ian Forgie: I realise that that question was asked when you visited, so I supplied a paper to the committee that I hoped would set out in layman's terms the values of assets on the balance sheet, because it can be a complex area. Basically, there are two levels of assets. There are investment properties that have been held for rental values within the business. Those were valued by Deloitte, on acquisition, at £2.8 million. They get valued each year by Deloitte's specialist property section, and they have roughly the same rental value. However, that valuation is for accounting purposes. It is not the true value of that land in a different position. We are bound by regulations to that on an accounting basis. You may have a different view, depending on the future of the business, as to what the value of those land assets is. Parcels of land could be sold off for different uses. However, as we continue to run as a business, we have to abide by the accounting rules and value the land assets on that basis.

The second group of assets is the operational assets, which are the terminal building, the runway and all the things that we use to run the business. Again, those were valued at £1 million on acquisition. Each year, as we spend on the runway and on maintaining the infrastructure, we expend that kind of money, but we can capitalise that and leave it as an asset only if we can show future positive cash flows. Each year, as you have rightly pointed out, the business has made losses, so you cannot generally get cash out of the business. Again, accounting rules say that that cannot be left on the balance sheet, so it has to be shown as expended in the profit-and-loss account. Those are the numbers that the committee has quoted.

Mike Rumbles: I would like to pursue that. You answered my question in a way that I did not think you were going to. I thought that you would say that, if the Government asked for the taxpayers' money back, you would pursue commercial terms with other organisations to produce it. However, you did not say that. You said that the business would go belly up, basically. It strikes me that that would not take place in any other operating company. It is not a profitable company. How long do you think that the Scottish Government will be prepared to put in loans each year? As I said, it has put in loans to your company every year since

it bought the £1 share. How long can that continue?

Andrew Miller: Ian Forgie gave a technical answer in terms of liquidity, the balance sheet and the issues surrounding impairment. All that I can say is that we have had approaches from third parties about the business. They have looked at the business in a different way and have in the past been willing to offer packages for acquisition in whole or in part.

Those discussions have not concluded in a way that we wanted, but one of the things that came out was that a lot of companies that operate in our area have shown interest in the assets. In terms of the pure valuation of land, I do not want to say too much, but we have land that is not core to the business and we know that the commercial value of that land is significantly higher than the stark £1.4 million in the accounts. Mr John Scott will know about some of those opportunities and what is actually going on.

The Convener: If John Scott has a brief question, he can come in now.

John Scott (Ayr) (Con): To try to help Mike Rumbles with an answer, I will give my understanding of the position, which was provided by Nicola Sturgeon when she was Deputy First Minister and undertook this venture some five years ago. My understanding is that the underlying asset value of Prestwick airport and the land around it is significantly more than the liabilities incurred thus far. As I understood it at that time, because the Scottish Government has an arm's-length bargain with Glasgow Prestwick Airport, it will lend sums, to some extent at any rate, as long as they are not beyond the underlying asset value of Prestwick airport, which is an 800-acre site. In the worst-case scenario, the site has a huge value for building, as it is located between Troon and Ayr. That is the bottom line as far as the Scottish Government is concerned, as I understand it. If the business went belly up, the Government would still get its money back through the underlying asset values, notwithstanding the accountancy procedures that constrain the way in which assets are reported.

If I may, I will ask a question now, convener, but you might not want me to do so.

The Convener: You can ask a short question.

John Scott: My question is for Andrew Miller and his colleagues. Given that Prestwick is perhaps the best connected airport in Scotland for passengers and freight because there is a motorway from central Scotland to the front door, it is 25 minutes from Newton Mearns, there is a rail link into the airport, the Falkland junction is less than 1 mile away and the ports of Ayr and Troon are within 1 mile, would you gentlemen like to talk

about the potential for growth in the airport, particularly around the spaceport, the logistics hub for Heathrow and the development of maintenance, repair and overhaul for companies such as Chevron, Spirit Aerosystems and GE Caledonian?

The Convener: John, very rudely I am going to stop you there. As an MSP attending the meeting just for this evidence session, you did not get the committee papers and therefore will not know that your specific questions are coming up later.

John Scott: I see. Sorry.

The Convener: You will get your answers, but you may have to wait for them. However, thank you for your comments. I will go back to Mike Rumbles, after which I will go to Peter Chapman.

Mike Rumbles: Thank you, convener. It becomes crystal clear to me now that the value of the company is not in its operations but in the value of the land on which the airport sits. That is what has been said, but correct me if I am wrong.

Ian Forgie: To be specific on a technical issue, the issue was raised of why the balance sheet shows only £3.8 million when we could have a much larger value for the land on which the airport operates. We were trying to demonstrate that there would be a significantly higher number if we went to the market and sold the land, but that is not our purpose. The accounting purpose is to look at the business going forward, so we put the land value to the side. However, the underlying value of the business is dependent on what someone thinks of its operation. As I think Andrew Miller has already highlighted, there has been significant interest in the airport in terms of opportunities to develop it.

11:15

Mike Rumbles: Well, I just go back to the point about there having been no change. In the four years before the Scottish Government bought the company you made an operating loss of £25 million, and in the four years since then you have made a similar loss. You have made losses every year for the past nine years, and nothing that I have heard today gives me any confidence that you are turning a corner or are about to increase profitability. I would like to know the value of the land, as John Scott mentioned in the point that he has just made. How valuable is the land on which the airport sits?

Ian Forgie: Again, that is a subjective question, and the value of the land would depend on market conditions. If the airport was not running and was not there, the land's value would depend on what use was made of it. Housing and commercial uses

would give different valuations. Therefore I cannot answer that question, which is one for an expert.

Mike Rumbles: It just strikes me that this is not a profitable operating company that should be invested in—but there we are.

The Convener: I am sure that, as a result of this, you will look at the value of the assets that are held by the company, as part of your due diligence.

Ian Forgie: It is one consideration in our review process for this year, looking at options for what we do and how we use the airport.

The Convener: We will look forward to seeing that review at some stage.

Peter Chapman: Today, we have heard that you have had very modest growth in passenger and freight traffic. We all know that investment is often needed in order to grow any business. Do you have access to sufficient capital to make the necessary investment so that you can grow this business, bearing in mind that the difficulty is that there are also major infrastructure costs? As I understand it, within the next five years, the primary radar system will need to be replaced. Do you know how much that will cost, and have you any idea how you will fund it if it is to happen?

Stewart Adams: It was very clear to me that the business had suffered from a lack of funding for infrastructure for many years, since long before the Scottish Government got involved in it. To be fair to the Government, it has been willing to bring the facility up to as good a standard as we can expect and to a standard that will not put off operators. Earlier, I said that, as far as I am concerned, as an airline man, nothing about the facility puts me off. In fact, our customers love us. I have met a lot of them, and they all think that it is a fantastic facility. Therefore we do not have a problem with the facility as such.

Every year, probably £3 million or £4 million of the loan routinely goes on the infrastructure. We have a 3,000m runway and, over a 10-year period, we resurface 300m of it each year. It is a bit like painting the Forth bridge, in that, after 10 years, in effect we start again, and that is the best way of keeping the airport open. That 300m stretch could cost a seven-figure sum of money—and that is just to keep the runway in a serviceable condition.

Like any business, we have opportunities to spend more money and improve our infrastructure. However, there is no problem at the moment. We already have in place everything that we need to operate. On the primary radar, I do not know how much has been said at previous committee meetings, but brand new radar is being installed as we speak and will probably be operational by

December. Like many other projects in the UK, it has been funded by the wind farm developers.

Peter Chapman: I see. So that is on-going and will be up and running shortly.

Stewart Adams: If you were to come to the site, you would see it there, but it is not operating at the moment as it is going through various tests. It is of the very latest standard—for instance, it can identify wind farm activity—and will be up and running by the end of the year.

Jamie Greene: One of the important points that we have not spoken about today is the fact that Prestwick is also about people, as it employs a lot of them, both directly and indirectly. I was not in the Parliament at the time, but perhaps one of the original reasons for safeguarding the site was the fact that it was a huge part of the local economy, and so it was right that members supported that then.

Prestwick has always had a very emotional reaction from the public, and people are nostalgic about that part of our aviation history in Scotland. However, we are where we are. Given that you are at 90 per cent occupancy in your property portfolio and that you have a single retail passenger airline that is notorious for moving from airports at a whim, and given that you have had 17 meetings with cargo companies over the past 12 months with no real growth in that side of the business either, my question is this: from a strategic point of view, are we getting to crunch time after five or six years of public funding? Are you getting to the point where you are crunching the numbers and making strong strategic recommendations on the next steps for the airport?

Andrew Miller: We are recrunching the numbers. Some of the major growth projects relating to Heathrow and the UK Space Agency's spaceport have been delayed. I could comment on the reasons why those have been delayed, but we have to be big people and understand that. Those projects are still on the longer-term or medium-term horizon. You are absolutely right that there have been significant changes. The business managed to achieve the financial performance in years 1 and 2 of our five-year plan. However, we are struggling a little in year 3, because of Brexit-related issues and other activities that we planned to add to the business by way of a spaceport and new carriers. We have to revise the five-year plan on the basis of a changing set of assumptions. The business is currently doing that, and we will have a solution and a way forward before the end of this year.

Jamie Greene: A strategic vision was announced in 2014, which focused on passengers, freight, revenues and operating costs,

and then a strategic plan was announced in April last year. We are now 14 months into that plan. Is it going well? Are you meeting the objectives in it? You have announced a new plan that will come out at the end of this year. I am a bit confused because there are so many different directions, visions, plans and strategies. To go back to my original question, at what point do you take overarching responsibility and set out the only direction in which you think the airport should go?

Andrew Miller: So as not to confuse you, let us be very clear and blunt: in any business with a five-year plan, usually the short-term years are more crystal clear. The base or current year is clear and, as it goes forward, some of the variables change. A mature board and management team will recognise those changes and adjust the assumptions and numbers on a regular and on-going basis, which the business does.

That happens not just with the five-year plan but for the current year. In the current year, we have not in some respects achieved some of the volume growth in revenue that we expected, but the management team—Stewart Adams especially but also Ian Forgie—have accepted that and have squeezed enough juice out of the lemon in terms of efficiencies, through a recalibration of the mix in the business. For instance, fuel prices have doubled this year compared to last year. What the management team have done has been a significant achievement. To try to achieve the bottom line in the plan, there have been changes in the mix and the margin. The project is called project rebalance, and Stewart Adams and his management team have done a significant job.

We are big people. We understand that foreign exchange rates change and that the price of fuel changes. In the past 12 months, we have lost two of the largest carriers in Europe—Air Berlin and Alitalia. The markets in places such as Germany present significant opportunities for carriers such as Ryanair and easyJet but, because of Brexit, which has a lot of risk attributes for the aviation industry, we have had to recalibrate the assumptions and the numbers. That is part of day-to-day on-going business.

Jamie Greene: What is your gut feeling, though? You are respected aviation experts and you are leading the charge at Prestwick. You must have a gut feeling as to where things are heading and what the future direction of the airport will be. If so, I would really be pleased to hear about that.

Andrew Miller: The board and management do not rely on gut; we rely on facts, strategy and macroeconomic variables, which we try to manage in the most positive way we can.

Stewart Adams: The reality is that, if we look at the forecasts for the whole aviation industry, we can see that the curve increases. Demand for air travel will be huge over the next few years, but this country does not build new airports. Prestwick airport is fairly unique; we have a 3,000m runway that gives us amazing capability because it is not only long but wide. Over time, the country will not build new airports, so airport capacity will become a challenge. Prestwick airport's future might not look rosy right now but, in the future, it is inevitable that it will become a far busier airport.

Kate Forbes: You mentioned that there have been a number of approaches in which interest has been expressed in buying Prestwick airport or investing in the business. Can you provide any more detail about those approaches, or what such approaches might look like in the future?

Andrew Miller: We have had approaches, some of which are governed by non-disclosure agreements with various parties. We have a criteria checklist against interested parties. About 90 per cent of those parties are ruled out when we ask them about their experience of running an airport and whether they will be able to bring in incremental revenue to the top line. Some of the interested parties own airports or airlines. However, over time, there is a very narrow chevron of interested and suitable parties.

We have had approaches in the past six months, but some of them have been tyre kickers. It is important that interested parties have experience of running airports or airlines and access to capital to fund the business, and that they understand the dynamics of the market and how they might fix their top line. We have had discussions with people who own cargo airlines and with foreign parties that deal with passenger airlines. Having access to the correct and proper level of capital is very important. We have commercial criteria that we go through and, over the past 12 to 18 months, only one or two parties have fitted those criteria. We do not want to sell the business currently to somebody who wants to close down the runway and build houses.

Kate Forbes: Have those approaches been initiated by third parties or have you been actively looking for a buyer?

Andrew Miller: The business is not actively up for sale. However, if somebody comes along who shares the same strategic vision as the board, we will talk to them. If they have the capital funding and the expertise, we will talk to them. Such people know who we are. There has been robust discussion with a number of parties over the past two or three years, which has been part and parcel of our strategic objectives. One of our three objectives is to return the business to the private sector, in whole or in part, in a long-term

sustainable way. We do not want any fire sales or to jump into joint ventures with companies that do not have any experience in the area. There is a very narrow chevron of interested and suitable parties but, because of our experience, we know who they are, where they live and what their growth profiles are. We have regular dialogue with those parties about the future of our business and how they can help.

Mike Rumbles: You said that the airport is not “actively up for sale”. Is it for sale?

Andrew Miller: I work in the commercial world: everything is up for sale.

The Convener: We will have to leave it there. John Scott might be about to get his answers, but Colin Smyth will ask the question.

Colin Smyth (South Scotland) (Lab): There is a lot of nostalgia towards Prestwick airport. There was a wonderful documentary on television last night about the 1978 world cup, which included the Scotland team flying out from Prestwick to Argentina. Sadly, flying Scotland teams to the world cup is probably not a profitable opportunity for you in the very near future. A currently topical area in which there will be growth is the potential third runway at Heathrow airport and the prospect of a hub coming to Prestwick. What discussions have you had with Heathrow and the Government to make that happen, and what are the opportunities from it?

11:30

The Convener: I ask Andrew Miller to be as concise as possible.

Andrew Miller: We are one of 10 competing Scottish bids. The Heathrow people—including the CEO, who came once—have been up three times. The third time was last week, when we put our best foot forward with a local stakeholder group, the ports, the rail, our business and some of the interested parties who have added grease to the quicker turning of the wheels, including our dear friends in South Ayrshire Council. The meeting was exceptionally positive and the Heathrow team is working with us. As you know, Keith Brown is the minister, and he sent a memorandum of understanding that clarified Scotland’s role in the supply chain. They worked to that MOU in the meeting and it is looking very positive at the moment.

Colin Smyth: What would it mean to Prestwick, from a business point of view, if you were to secure that deal?

Andrew Miller: Do you mean Prestwick, or the whole picture for the Scottish economy?

Colin Smyth: The whole picture, but specifically Prestwick.

Andrew Miller: There might be one supply hub, or there might be two or three. We do not know; that is up to Heathrow. The whole picture for the Scottish economy is of 5,000 jobs over a period of about 10 years, so it is quite significant. Heathrow does not want to tip its hand on procurement prior to identifying where the hubs are to be, because it wants the best possible prices out of the Scottish manufacturing base. If Heathrow identified where the hubs will be and who the suppliers will be, that would put those organisations in a prime position to increase their margins. Quite rightly, therefore, it is not keen to disclose that information yet, but the meeting was very positive. It is a significant amount of money.

From the supplier base, we would be consolidating and trans-shipping the semi-fabricated pieces down to Heathrow. They need 15,000 people in Heathrow, but they cannot get that many on the site, so 5,000 out of that 15,000 will be based in Scotland. The discussions, which have been very good, have been about our offices, the number of employees that would be put into Prestwick and the facilities that we have. Stewart Adam and I spent two hours with Maya Jani, who is the procurement director for the project, while we were in the facility last week.

John Finnie (Highlands and Islands) (Green): That figure of 5,000 jobs is a remarkably round one, Mr Miller. Do you have a breakdown of how it would be made up?

Andrew Miller: The breakdown depends on where the supplier bases are in the Scottish production cycle. For example, will the people who build lifts come from Scotland or other parts of the UK? In generality, that figure is in the presentation from the Heathrow team, which is in the public domain.

John Finnie: Forgive me; I do not understand that. You said that there would be 5,000 jobs in Scotland.

Andrew Miller: Yes.

John Finnie: Can you break that down?

Andrew Miller: That is not in front of me at the moment, but 5,000 jobs is the commitment that the Heathrow people have made to the Scottish Government. Access to Heathrow slots is also part and parcel of that development.

The Convener: Perhaps it would help John Finnie if Andrew Miller could lay out those figures for the committee, if he does not have them to hand.

Andrew Miller: I will, but I will have to check the confidentiality of the breakdown.

John Finnie: On the issue of confidentiality, an awful lot of this seems to be about headlines and inducements—if I am allowed to use that word. It is clear that people can be seduced by a figure such as the creation of 5,000 jobs, so there should be clarity around it before it is bandied about by the Scottish Government or any of its agencies. Any information that Mr Miller can provide to give clarity to that headline figure—it is very impressive; who does not want jobs to be created?—would be very helpful.

Stewart Stevenson: Given that Prestwick is one of 10 options for those 5,000 jobs, we might properly address that question to the Scottish Government.

The Convener: Does Richard Lyle have a question? It must be very brief, please.

Richard Lyle: I know only a small bit about this but, at the end of the day, Stewart Stevenson is right: a commitment has been given to the Scottish Government by Heathrow that there will be a hub in Scotland. With the greatest respect, it is not for Andrew Miller to give us that information; it is for the Scottish Government to provide that information.

The Convener: From the committee's point of view, if Andrew Miller is happy to give us the information, I am happy to take it. If Mr Miller is not in a position to give it to us, I understand.

John Finnie: I am sure that Mr Miller will forgive me if I picked him up wrongly. I focused on the 5,000 jobs because I thought that Mr Miller was saying that that was the potential of winning the hub. I simply asked for a breakdown.

Are you able to say who your opposition is in Scotland, Mr Miller?

Andrew Miller: We are all team Scotland. Nine other sites have been identified.

Richard Lyle: One of them is in my area.

The Convener: We are not going there, Richard.

John Finnie: Any information on that would also be helpful, Mr Miller.

Gail Ross (Caithness, Sutherland and Ross) (SNP): I want to talk about the application to become a spaceport; we have touched on that a number of times. Mr Miller, you mentioned that the decision by the UK Space Agency had been delayed. Have you been given a reason for that, and do you know when that decision might be forthcoming?

Andrew Miller: It has been delayed for around 12 months. Part and parcel of the delay, I believe, is the complexity of the operators in the airports that are involved. Part of the delay—I am trying to

be as politically sensitive as possible—is to do with Brexit and the allocation of resources to the decision makers in Westminster. We are very well dialled in to both the House of Lords and the House of Commons through the select committees, but that process has caused some delays.

There are technical issues to do with the operators and the opportunity, although the opportunity is phenomenal. As an example of a technical issue, we applied with five space satellite launch operators. The UK Space Agency had a technical panel that tested the profit-and-loss balance sheets and the technology of the five operators, which was far beyond my personal intellectual capacity. It chose two operators to continue with Prestwick.

There have been sessions, as it were, in terms of phases. We are at the last phase, with two nominated operators, the names of which I cannot disclose today. We work with those operators to prepare and finalise the numbers. That is one issue.

The other issue is the regulatory environment around the licensing for a spaceport, which touches on technical issues, storage of fuel and so on. We looked at the United States Federal Aviation Administration's rules for spaceports and Prestwick is, on average, about 90 per cent compliant with them. We do not yet have the rules from the UK Civil Aviation Authority, but we are working on compliance for spaceport operations in the UK in line with the Department of Trade and Industry.

We are one of only two horizontal launch applications that are still left in the running, out of six or seven. There is a vertical launch component to the project and a lot of different places in Scotland are part and parcel of that, as a lot of committee members will know. However, I do not know about how the market is bifurcating or about the development.

When I started in this project, getting satellites into space from Kazakhstan cost \$30 million. Elon Musk is predicting a launch cost of \$7 million from his SpaceX project, so there has been phenomenal change in the cost of launching. Vertical launches of satellites were very expensive, but they are reducing in cost.

I think that the UK Space Agency has not hit its deadlines—to be fair to it, this is a very complex area. However, we were supposedly told, by Jake who heads up the agency, that we should know by the Farnborough air show. It is a political process, and I just watch with interest.

Gail Ross: As we know, the air show is not too far off into the future, so we will await that with interest. Will you tell us some of the benefits that

the project would bring to the airport and the area as a whole?

Andrew Miller: That is a very good question. On the commercialisation, monetisation and value of the land, more and more manufacturers and people who support the industry want to take up space within our boundary fence. We have the space—we have 885 acres—and it is a key opportunity for us. Manufacturers, industries and enterprises are associated with that. We will get the loading and landing fees, and the related fuel fees. We are fully compliant in that area.

The bigger issue of the economic benefit to the UK, and the Scottish economy, is the manufacturing of the satellites, where the people are and the supply chain. We know who they are, we have worked with them and we understand the demand requirements. They would be more than happy to sit in our airport enterprise, rather than take a three-week trip to Kazakhstan, where they would have to piggyback their loads on military loads and so on; sometimes, they have to wait for three months for a launch. There is great supplier satellite manufacturing demand in our backyard.

Gail Ross: What is the job creation expectation?

Andrew Miller: The GVA figure is 1.4 billion; that was the 2017 figure, and the company who did it—

The Convener: Jobs?

Andrew Miller: No, that figure is for gross value added—it is £1.4 billion.

The Convener: I want to push you about jobs.

Andrew Miller: I am nervous when it comes to jobs. *[Laughter.]* I cannot remember the figure.

The Convener: You have dodged the question.

Andrew Miller: I have found the figure in my briefing pack. It is 4,617 jobs.

Mike Rumbles: Do we have a breakdown? *[Laughter.]*

The Convener: That is probably an appropriate point at which to end the session. I thank Andrew Miller and Stewart Adams for coming in. I also thank Ian Forgie; he has been in post for only eight weeks, but it was not really a baptism of fire. Thank you for the information. There are bits that we will follow up on after the meeting. I am sure that we will keep an eye on the issue as the parliamentary session continues.

I suspend the meeting—for no more than five minutes—to allow the witnesses to depart.

11:42

Meeting suspended.

10:47

On resuming—

Subordinate Legislation

Tuberculosis (Miscellaneous Amendments) (Scotland) Order 2018 (SSI 2018/164)

The Convener: We move on to item 5. Before we consider the Scottish statutory instruments on our agenda, I invite members to declare interests. I declare that I have an interest in a farming partnership.

Peter Chapman: I, too, have an interest in a farming partnership.

Stewart Stevenson: I have a small registered agricultural holding.

The Convener: Okay.

The Tuberculosis (Miscellaneous Amendments) (Scotland) Order 2018, which relates to tuberculosis control measures for bovine animals, is not subject to parliamentary procedure, so the committee would not ordinarily be required to consider it. However, the committee has been advised that NFU Scotland and the Scottish Beef Association have concerns about the policy intentions behind the instrument. The NFUS also raised with the committee concerns that its submission to the Scottish Government on the SSI appears not to have been taken into account.

The Scottish Government wrote to the committee only this morning to acknowledge that technical issues had led to two submissions—those from the NFUS and the British Veterinary Association—not being received and therefore not being taken into account. Based on the information that we have, that means that three submissions were not taken into account. In the circumstances, the Scottish Government has decided to revoke the instrument, to consider the policy issues that have been raised by the NFUS and in the other submissions that were not considered, and to lay a new order at a later date. Does anyone want to comment?

Stewart Stevenson: It is disappointing that this has happened, but I think that the Government's response, in revoking the order, is the correct one. The Government failed to recognise receipt of three submissions about the order from important stakeholders, and I think that we need to consider whether there is a wider, systemic problem that might affect other policy areas in the Government. We should communicate with the Government on the need for it to assure us that there is no such systemic problem or that it is fixing the problem, so that we and other committees do not find ourselves in this position in the future.

Peter Chapman: I accept that mistakes have been made and that it is important that people have a chance to comment on the order. I agree that revocation is the right procedure.

I hope that a new order is laid in the very near future, because it is important that procedures are tightened up so that we protect Scotland's precious TB-free status. The instrument is about tightening up the rules and dealing with compensation. I would love a new instrument to be laid as soon as possible.

Jamie Greene: I strongly urge the Scottish Government to ensure that its consultation process is as robust as possible. The feedback from the NFUS and the Scottish Beef Association is that their submissions were not taken into account, and the views of other third parties and stakeholders might not have been taken into account. I make a friendly appeal to the relevant directorate to ensure that the consultation process on such important matters is as inclusive, transparent and robust as possible.

Mike Rumbles: Members have been given copies of the letter that the convener received this morning—20 June. It is from a civil servant, who says:

"Accordingly, I can confirm that at the earliest opportunity we will bring forward a further Instrument to revoke the Tuberculosis (Miscellaneous Amendments) (Scotland) Order 2018. The Scottish Government will seek to introduce a new Order".

That might be the case, but in my view this letter should have come from the cabinet secretary responsible, and I am surprised that that did not happen. The effect is the same, but I think that it is important that we write to the cabinet secretary and not to civil servants.

John Finnie: The two points that I intended to make have been covered. One is about the process and ensuring that what has happened is just a blip. The other is the point that Mr Chapman made about Scotland's TB-free status, which is important and should give a sense of urgency to the situation.

I would not, however, want it to be thought that the committee endorses the position of any of the organisations that made a submission. The Scottish Beef Association's position is that there should be no limit on compensation, which is not something to which I would agree.

Richard Lyle: I take on board the points that members have made, but I take from the letter that the clerk of our committee was in contact with the agriculture and rural economy directorate. The response has come from Sheila Voas, who is the chief veterinary officer for Scotland. I am sure that the cabinet secretary will consider the issue and resolve the situation.

The Convener: What is coming out of our discussion clearly is that the committee identified a few problems with the process and the Government is responding entirely correctly by revoking the instrument and laying a new one.

I take John Finnie's point entirely. It is not for the committee to endorse any of the comments in the submissions that were not taken account of. However, it is for the committee to say that those submissions should be considered. As Stewart Stevenson has indicated, the committee has the right to find out why the submissions were not considered. They are from three of the big stakeholders, so it is important that we make sure that they are not missed. I am sure that people who want to make comments on the instrument will now get a chance to feed those in to the Government.

I also take Peter Chapman's point that Scotland has been TB free since 2009, and John Finnie's point that we do not want to allow TB in. It is important that whatever we do does not allow that.

Bearing all that in mind, I suggest that the committee write to the cabinet secretary to welcome the action that the Government is taking, to note our concern regarding how the submissions were missed, and to ask him to explain to the committee why that happened and to introduce a revised SSI as soon as possible to protect Scotland's status.

This has proved just how valuable are the committees and the work that is done to make sure that legislation is scrutinised.

With the committee's approval, I propose to do what I have suggested subsequent to the meeting. Is the committee happy for me to do so?

Members indicated agreement.

Marketing of Fruit Plant and Propagating Material (Fees) (Scotland) Regulations 2018 (SSI 2018/175)

Animal By-Products and Pet Passport Fees (Scotland) Regulations 2018 (SSI 2018/176)

Animal Health (Miscellaneous Fees) (Scotland) Regulations 2018 (SSI 2018/177)

Beef and Pig Carcase Classification (Scotland) Amendment Regulations 2018 (SSI 2018/182)

The Convener: Item 6 is consideration of instruments that are subject to negative procedure. No motions to annul any of the instruments have been lodged. Does the

committee agree that it does not wish to make any recommendations on the instruments?

Stewart Stevenson: I want to put on the record a comment about the Animal Health (Miscellaneous Fees) (Scotland) Regulations 2018. I am looking at the fees structure and there are a number of things that I welcome. There are quite a lot of fee reductions, although there are also some fee increases. I will choose, from a large portfolio, an example of a good fee reduction. The fee for approval of the first year of a scheme member's flock or hatchery or combined flock or hatchery on one site where the inspection is carried out by a veterinary officer is coming down from £233 to £27. Obviously, such measures reduce the barriers to entry to agriculture. There are other similar reductions. I accept that it is a complex instrument, from which I am cherry picking, but it is interesting and I very much welcome it and some of the things that I see in it.

The Convener: Having read all the instruments, I have to say that the pet passport fees instrument is quite complex—there is no set fee and there is a slight increase in the price for documents, but how much that will affect the passport is not reflected. There are a lot of unknowns in there which, I am sure, we have all picked up. We can note those comments.

Having heard Stewart Stevenson's comments, does the committee agree that it does not wish to make recommendations on any of the instruments?

Members *indicated agreement.*

11:58

Meeting continued in private until 12:07.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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