OFFICIAL REPORT
AITHISG OIFIGEIL

Rural Economy and Connectivity Committee

Wednesday 16 January 2019

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 16 January 2019

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RURAL ECONOMY AND CONNECTIVITY COMMITTEE
2nd Meeting 2019, 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)
*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)
*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Mike Baxter (Scottish Government)
David Blair (Scottish Government)
Fergus Ewing (Cabinet Secretary for the Rural Economy)
Graeme Hutton (Scottish Government)
Michael Matheson (Cabinet Secretary for Transport, Infrastructure and Connectivity)
Robbie McGhee (Scottish Government)
Jo O'Hara (Scottish Government)
Frances Pacitti (Scottish Government)
Andrew Watson (Scottish Government)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Rural Economy and Connectivity Committee

Wednesday 16 January 2019

[The Convener opened the meeting in private at 08:58]

10:00

Meeting continued in public.

Budget Scrutiny 2019-20

The Convener (Edward Mountain): Good morning and welcome to the Rural Economy and Connectivity Committee's second meeting in 2019. Please ensure that your mobile phones are on silent.

Our second agenda item is an evidence session on the Scottish Government's draft budget 2019-20, with two Government cabinet secretaries, in two separate panels. I welcome the first panel. From the Scottish Government we have Fergus Ewing, Cabinet Secretary for the Rural Economy; Andrew Watson, deputy director for agricultural policy implementation; David Blair, head of budget challenge; Graeme Hutton, head of agriculture and rural economy finance; and Kirsten Beddows, branch head, common agricultural policy, genetic modification policy and agriculture climate change—that is quite a long title. We also have Jo O'Hara, head of Forestry Commission Scotland.

Cabinet secretary, would you like to make a brief opening statement?

The Cabinet Secretary for the Rural Economy (Fergus Ewing): Yes, thank you, convener. Good morning, everybody. It is a challenging budget, first because of United Kingdom austerity and secondly because of the loss of European Union funding. I add to that the potentially cataclysmic and catastrophic impact on the rural economy were there to be a no-deal Brexit. I cannot emphasise that risk enough.

We seek a sustainable and prosperous rural Scotland. The rural economy budget reflects the removal of transport and connectivity from that budget line. On a like-for-like basis, the budget is essentially flat in cash terms, dropping by £0.9 million, which is 0.2 per cent or 2 per cent in real terms.

I will outline some key choices. The £580 million budget aims to provide financial security for and certainty to Scotland's farmers and crofters, by delivering common agricultural policy payments and ensuring that farmers receive payments promptly. I remain committed to the rural development programme, including continued support for agri-environment, farm advice, crofting and the food and drink sector.

I have committed to maintaining payments to the maximum level permitted for the less favoured areas support scheme. I am not prepared to see levels of support drop below 80 per cent. We are working to stabilise and simplify financial support policies for farming food production after Brexit.

On rural services, my priorities include delivering world-class science support to protect Scotland from plant disease, spending £23 million on animal welfare and statutory vet services, investing more than £6.5 million in our world-class food and drink sector and investing in a food and drink export plan to build on the growth in that sector.

The rural economy budget supports Scotland's marine and coastal communities. We will maximise the benefits of the European maritime and fisheries fund to support key projects. We will protect Scottish interests in the negotiation of fishing opportunities and build on the strengths of our aquaculture sector, adding value to many significant investments in remote rural areas.

The rural budget provides substantial support to rural businesses and social enterprises to generate inclusive economic growth. It provides more than £74 million to our rural enterprise bodies, including supporting the south of Scotland economic partnership and the new enterprise agency for the south of Scotland.

We will invest nearly £59 million in forestry priorities, expanding woodland creation and delivering benefits for the economy, people and the environment. We will introduce new arrangements for management of forestry in Scotland under the Forestry and Land Management (Scotland) Act 2018. We will stimulate and enable woodland creation across Scotland to achieve our targets.

It is a good settlement for the rural economy; it is fair and realistic. Through efficiencies, the natural end of some projects and substantial income generation from timber sales, I can meet my commitments to rural communities and act in a collegiate way with my Cabinet colleagues to support wider Scottish Government priorities. I am confident in the choices that I have made and that they will deliver for our rural communities.

My officials and I are happy to take questions.

The Convener: Thank you, cabinet secretary. The first question is from the deputy convener, Gail Ross. [*Interruption*.] I thank the deputy convener for reminding me that members should make any declarations of interests before we ask the cabinet secretary questions.

I have an interest in a farming partnership, as declared in my entry in the register of members' interests.

Peter Chapman (North East Scotland) (Con): Likewise, I declare an interest as a member of a farming partnership.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): I am not expecting to ask questions on rural issues but, for the purposes of the second session, I declare that I am honorary president of the Scottish Association for Public Transport and honorary vice-president of Railfuture UK. I also have a very small interest in a registered agricultural holding.

The Convener: Now that I have been corrected—and rightly so—Gail Ross will ask the first question.

Gail Ross (Caithness, Sutherland and Ross) (SNP): The budget says:

> "In 2019-20, for the first time, the total operating costs for the Scottish Government are aligned with the portfolio budget that they support."

We can see that the rural economy portfolio's operating costs are £89 million. How are those operating costs spent?

Fergus Ewing: The budget for operating costs has increased by £37 million in a single year, but that figure is not comparable with previous years—the true growth is about 4 per cent. The alignment change supports much greater scrutiny of operating costs, particularly over time as we continue to present operating costs in that way in future years.

The increase in the rural economy's operating costs includes costs that were previously held under the separate CAP compliance budget line, an element of resource that was previously in the administration budget, an allowance for pay inflation and preparatory work for Brexit issues. Alongside that will be the business-as-usual costs for the delivery of CAP implementation, animal health and welfare services, agricultural science and support for agriculture, crofting and rural economy policies. Officials should be able to provide more detail—we can always write to the committee with more detail, if that is required—but that is the headline explanation for this year's figures.

Gail Ross: We would like to get some more detail, if that can be provided.

Andrew Watson (Scottish Government): The majority of the operating budget relates to the agriculture and rural economy directorate of the Scottish Government. We have close to 1,000 staff, so the directorate is a significant part of the Government's total staffing complement. The majority of the operating costs relate to that part of Mr Ewing's portfolio, but other elements of the portfolio are funded through the directorate, too.

As Mr Ewing described, there has been a change in how operating costs across the Scottish Government are presented in the budget this year. At the back of the budget—in annex G—there is a substantial explanation of how the costs have been derived. It sets out that, on a roughly like-for-like basis, the year-on-year change in the rural economy portfolio's operating costs is about £4 million, rather than the headline £37 million figure that is used elsewhere in the document. We can provide more information in writing if that would be helpful, but annex G gives a clear explanation of why there has been a change this year.

Gail Ross: Is there any possibility of reducing those operating costs in the future?

Andrew Watson: Our current projections are that resourcing will be pretty steady, particularly in the agriculture and rural economy directorate, which is the area that I know best. As Mr Ewing said, in the current financial year, we have put resource into responding to the challenges that Brexit presents. We have a dual task of carrying out business as usual plus preparing for Brexit. At the moment, we are not planning to significantly expand our staffing complement in 2019-20. That said, the events of the next few weeks will clearly have a huge impact on our business planning for 2019-20. In that respect, we are no different from many other parts of the public sector. We have a watching brief in that regard. However, as I said, the draft budget plans for resourcing to be in a steady state.

As you will be aware from other evidence sessions, we are cutting back our reliance on external contractors in the current year, as we transition away from the significant work on the CAP information technology futures programme. We definitely aim to rely less on external contractors as we enter a steadier state in that part of our business.

Gail Ross: I am glad that you came on to the CAP, because I wanted to ask about operating costs. The "ARE Operations" budget line has increased from £62.9 million in 2017-18 to £82 million in 2018-19 and to £129.9 million in 2019-20. Why are those costs increasing so rapidly year on year?

Andrew Watson: The main driver of the jump in the figures in 2017-18 to those in 2018-19 was a change in our depreciation budget, which is a non-cash budget line. That relates to our position in transitioning out of the IT futures programme. That was not an increase that affected public services and goods; it was largely an accounting adjustment for depreciation. As I have described, the jump in the figures in 2018-19 to those in 2019-20 is, on a like-for-like basis, around £4 million. That is largely to do with pay inflation in relation to public sector pay policy for our staff of about 1,000, as well as inflation in contractor salaries. The change from 2017-18 to 2018-19 was primarily to do with depreciation, and the change from 2018-19 to 2019-20 is a modest increase to do with pay inflation.

Gail Ross: What will happen to that budget line in the future? Will we continue to spend the same amount? Will the figure go up, or can we get it down?

Andrew Watson: We have clear plans on efficiencies. In common with other parts of the public sector, we look to push for efficiencies. An example of that is reducing our reliance on contractors.

The challenge that we have in forecasting our cost base for staffing is Brexit. One reason for those costs making up such a large part of core Scottish Government expenditure is the impact of the regulatory position on the CAP. There is a large overhead in relation to the ARE regulatory requirements, and we need staff across the country to administer that.

There are multiple scenarios on Brexit and the future of the CAP, and the path that we take through that will have an impact in the medium term on the number of staff that we need, what they need to do and where they are located. As you know, it is very difficult to predict the direction in which that will go.

At the moment, the Government's policy is for there to be stability and simplicity. We have set out a plan to get us from here to 2024, which is largely to do with providing stability to farmers and crofters. We can assume that we will need broadly the same core workforce to deliver that, but that will depend on certain outcomes on Brexit and the CAP.

The Convener: Mike Rumbles has some questions on this topic.

Mike Rumbles (North East Scotland) (LD): I refer to table 12.01 in the budget document, which is entitled "Spending Plans (Level 2)"; the minister or the officials might have it in front of them. If operating costs, non-cash expenditure, capital expenditure and financial transactions are removed, the total cost of spending on the rural economy goes from £362.1 million in the current year to £351 million next year, which is a fall of £11.1 million, or 3 per cent. I think that I caught the minister saying that it was a 0.9 per cent fall, but the figures in table 12.01 indicate that it is a 3 per cent fall.

Fergus Ewing: David Blair is anxious to explain the statistics.

David Blair (Scottish Government): There is a very simple explanation for that. The £11 million fall is made up almost entirely of a change in the non-cash provision for Highlands and Islands Enterprise; Graeme Hutton might be able to help me find the relevant place in the budget document. There has been an adjustment of about £10 million in the non-cash provision for HIE, so the difference between the two years is, in fact, very small—that is the 0.9 per cent that we are talking about. That figure relates to the total resource spending—the manipulable spending that can be spent at the cabinet secretary's discretion. Those are the published figures.

Mike Rumbles: I will focus on the "Rural Economy Enterprise" line in table 12.01. I assume that HIE is covered under that line. Next year, the spending under that line will fall from £81.7 million to £74.4 million.

David Blair: That is right.

Mike Rumbles: That is a £7.3 million decrease.

David Blair: You are right to quote those figures. If you look at page 172 of the published budget, you will see that, under the line in the table that says "*of which:*", the non-cash element drops from £15 million to £5 million. It is a £10 million non-cash reduction in the total resource envelope.

Mike Rumbles: Why has that happened?

David Blair: It is a simply a matter of Highlands and Islands Enterprise readjusting and submitting its depreciation estimate.

Mike Rumbles: Did you say "depreciation"?

David Blair: Yes. It is the depreciation of assets.

Mike Rumbles: It seems like a heck of a lot of depreciation.

10:15

The Convener: Does the whole HIE budget, including the depreciation element, need to be reviewed in light of the situation at Cairngorm Mountain Ltd?

David Blair: It is for HIE to calculate its depreciation in line with the relevant accounting standards. It will update that in the normal course of events, depending on its assets at any given moment. Therefore, the answer to your question, basically, is yes, it will keep that under review and adjust things as we move through this year and get to next year's budget.

The Convener: Costs are likely to increase and, given the state of some of the assets—particularly the funicular railway—there will be further, and possibly considerably more, depreciation that has not been taken into account.

Fergus Ewing: You are right to raise the issue, convener, and it is occupying a lot of HIE senior management's time, my time and my officials' time. There will be costs associated with the funicular—there is no doubt about that—but they are not and cannot be known at the current time. As has been made public, HIE instructed a firm of engineers called COWI to produce a report. Its final report is expected to be made available fairly shortly. It is anticipated that, as you would expect, it will not contain cost estimates for what is required. Following its conclusions, there will need to be a further assessment of the options. The process of ascertaining the options, and hence making cost estimates, will involve very rigorous and careful professional advice and examination.

Yes, there will be costs, but no, it is not possible at the moment for us to say what those costs will be. As a result, it is not really appropriate to make financial provision in the budget for a contingency relating to an expectation of a substantial cost element. We are simply not in a position to know what that cost will be, but we are looking very carefully at and working very closely with HIE on the issue.

In conclusion, I am pleased that HIE has acted swiftly and professionally not only to get excellent community engagement, but to invest in snow-making equipment to allow skiing to continue on Cairngorm, as has been the case up to now, albeit at a much-reduced level.

The Convener: I want to understand this issue. If I was doing a budget and knew that a potential cost was coming down the line, I would make some prudent calculations about that anticipated cost so that, when it happened, there would be no budget surprises. Are you saying that you will just deal with the issue when it comes along?

Fergus Ewing: We know that there will be a cost but, before the experts have provided their report, it is simply not possible to know what that cost will be and whether it will be a relatively modest or major cost. That makes things difficult in a budgetary sense. You are right to point out that there will be a cost, but I respectfully disagree with your suggestion that it is possible to assess it at the moment.

We have given consideration to incorporating flexibility in our capital budget, and due to competing priorities in the portfolio, it has been possible to allocate £0.4 million to the funicular in the 2019-20 budget. However, the process that I have described of expert analysis of the options is, quite rightly, likely to take some time. After all, it took many years to decide on the funicular and then construct it. We will have to see how serious the criticism in the COWI structural engineer's report is, but I expect that we will need to proceed with caution and get further advice before we are in a position to know what the bill would be. I hope that members of all parties are as committed to ensuring the continuance of successful skiing and snowsports activity on Cairngorm as we are with regard to the other four outdoor resorts in Scotland.

The Convener: I guess that you and I have a different view on budgeting and contingency planning.

John Mason (Glasgow Shettleston) (SNP): For clarification, cabinet secretary, are you saying that, if there is any extra expense in 2019-20, it can be managed within the overall budget?

Fergus Ewing: Well, we certainly hope so. Obviously, in Government, contingencies arise. Things that we cannot foresee—or the quantification of which we cannot foresee—arise every year. It is neither possible nor prudent to set aside an enormous amount of money in the belief that 50 or 100 contingencies might all need to be dealt with in the course of a particular budget year.

I am not an expert in budgetary practice, so my colleagues might want to comment, and Mr Hutton, as the finance expert, might talk about the dry, accountancy-like approach to all this. We cannot simply set aside hundreds of millions of pounds in the belief that it might need to be spent in this financial year; I do not really think—

John Mason: That is okay, cabinet secretary. As a dry accountant, I am quite happy with what you have said.

Stewart Stevenson: Let me ask the obvious question. In accounting terms, is the issue therefore being treated as a contingent liability rather than a liability, in which case it does not appear in the accounts?

Graeme Hutton (Scottish Government): We have not entered into any contractual liabilities at this time, so—

Stewart Stevenson: So it is contingent and therefore would not appear in the financial provision.

Graeme Hutton: Not this year, anyhow. A provision has been set aside, and we will revise those estimates when more information is available and we can get a firmer figure.

Peter Chapman: I want to come back to the agriculture and rural economy budget line, which has more than doubled in the past three years. The cabinet secretary explained that most of that is for salaries in the past year. I have also noted that that budget line covers the IT system. There have been huge problems with that in the past, and I would argue that the system is still not fit for purpose. How much money are we still spending on the CAP IT system?

Andrew Watson: You will be familiar with the range of evidence that we have given on the matter over the past few months. The budget includes a forecast of a significant reduction in capital spend on CAP IT, with our moving from a figure of around £26 million to a figure of around £11 million. As I think that my colleague Eddie Turnbull has explained to the committee in the past, that reflects the fact that, having delivered the core functionality of the futures programme, we are moving into a period of stability, maintenance and enhancement. We therefore feel able to reduce our capital budget requirement for CAP IT quite significantly in 2019-20.

The Convener: Just so that I understand this, are you saying that you are moving away from running costs of £26 million per annum for the CAP IT project to a figure of £11 million?

Andrew Watson: No. Let me be clear: I was talking about capital investment in new IT functionality, rather than running costs and maintenance. I was describing how the balance of expenditure will move away from building new bits of kit towards maintaining what we have.

However, there is always a need, year on year, to reflect and respond to real-world changes. Cybersecurity, for example, is a key issue, and we need to ensure that our systems are fit for purpose in that respect, which requires on-going investment. That is the point that I am trying to get across.

Peter Chapman: I welcome that. You are basically saying that the IT system is pretty much fit for purpose, as it stands, and that we are just talking about on-going costs.

As we look further ahead, we know that how we support agriculture will change quite dramatically. Does that mean that we need to think seriously about designing a whole new system, to cope with what is coming down the road post-Brexit?

Andrew Watson: As you have suggested, the landscape is very uncertain, going forward. The rural payments and services system, which is rules based, enables us to be reasonably flexible, such that in the short term, and certainly under a negotiated deal settlement—that is clearly a moveable feast—we will be able, for a period, to continue to administer schemes that are broadly similar to the schemes that we have at the moment. If, in the long term, we were to move to a substantially different way of putting money into the rural economy, systems development would be part of that programme of work. It is very hard to predict where that will take us.

What the cabinet secretary has outlined, as far as stability and simplicity are concerned, is a transition period in which we will look to simplify existing CAP schemes. Broadly speaking, though, we will keep that platform stable, and the IT system that we have in place is equipped to help us deliver that.

The Convener: I want to make sure that I understand this. What you are saying is that the current CAP IT system is capable of working on its own and delivering payments on time, and that the extra money is just to buy additional software to protect the system.

Andrew Watson: The cybersecurity piece of that is one element, and another would be any investment that was required annually to deal with, say, any small changes to scheme rules.

Another project that we have under way is our land parcel identification system, which we have given evidence on in the past. We are reaching the final stages of that programme, but it is not yet complete. I suppose that the key point here is that the budget relates not solely to the RP and S system for making payments but to a suite of IT products. We can give you more information on that, if that would be helpful.

The Convener: I just want to drill down into that. So the system is currently capable of making payments, as it was designed to do, on time and with minimum input.

Andrew Watson: That is correct.

The Convener: Are the extra staff who were taken on to address the failure of the system until it was up and running still required in the office to run it?

Andrew Watson: There are probably two aspects to that issue. First, there is the technical expertise to develop and implement the system, which is the area where we are looking to significantly reduce our costs in relation to, for example, IT contractors.

The second and larger element of our staffing budget relates to all of the other work that goes into the administration of CAP in Scotland. Part of that is, as you have said, area office staff processing payments, and a significant part of it is the wide range of land inspections that we have to undertake. It is not the case that we can substantially reduce our overall staffing complement now that we have delivered RP and S to the places where we have delivered it, but there should be some efficiencies, particularly in the IT development space. In the 2019-20 budget, we have budgeted for reducing our reliance in that respect.

The Convener: I have a question of clarification for the cabinet secretary. Now that the computer system is working well and is able to deliver payments, will this be the last year in which you will have to make loans? If the system is working so well now, will farmers get their payments on time, which, in the past, has usually been before Christmas?

Fergus Ewing: I am pleased that the loans system that we introduced has progressively allowed farmers to receive most of the money earlier than they used to. They received 90 per cent in October, as opposed to payments in full in December and January. As a matter of fact, most Scottish farmers received most of the money earlier than other farmers in the UK.

On your question whether loans will be required in future, we will keep that under review. It is a matter of judgment, and that decision will be taken by me at the appropriate time. However, the overriding criteria is to ensure that farmers continue to receive the funding one way or the other at the right time. That is the practical issue from a business point of view, and it is the key consideration that informs my decision making.

Just this morning, I had a weekly conference call with officials about CAP IT, and we are at well over 99 per cent of the pillar 1 payments for 2018. From memory, I think that the tail is down to 33, three of which were ineligible for a loan. The remainder were offered a loan, and most of them took it up. Even though a small tail remains, in almost every case a loan was taken up where it was due; others were offered a loan, but they did not take it up.

I am not satisfied that we are there yet—I will be quite candid about that—but my job is to produce practical solutions, and I believe that loans have served that purpose and served it pretty well. Therefore, if they continue to be required, I will look at that in the way that I have described, with the imperative that farmers and crofters should get the money on time one way or the other.

The Convener: I am sure that farmers will welcome that. I am also sure that they will welcome hearing that the IT system is working.

10:30

Mike Rumbles: Table 12.01 shows that the “EU Support and Related Services” budget line for the coming year is £176.8 million. I do not expect the minister to have these facts to hand but perhaps his officials will. How much extra does it cost us to administer the £176.8 million that is going to our farming businesses?

David Blair: As we have said, there are a number of elements in the ARE line. The biggest part is the running costs of the agricultural and rural economy directorate, and the biggest part of that is payments and administration, primarily the administration of CAP. The ARE directorate has many other parts, and I want to be clear that this is not all attributable to CAP.

In answer to your question, the figure is £86 million revenue.

Mike Rumbles: So am I right in saying that it costs half the budget to administer the £176.8 million? Is that what you are saying?

David Blair: No, we do not spend half the money on administration. That is separate.

Mike Rumbles: It is a simple question, but perhaps you could write to the committee with the answer. I would just like to know how much it costs us to get that help out to our farming businesses.

David Blair: I will reframe things slightly. The amount of money that we spend or transfer out is not £176 million—it is more like £533 million in EU funding. That is the money that we are passing to the rural community. The £86 million should be compared against that, not against the net value. The £176 million that you are talking about is net of the EU funding that comes in.

Mike Rumbles: It would help the committee if we received a breakdown of that.

David Blair: We can provide you with a bit more detail.

The Convener: That would be helpful, because there is some confusion.

Fergus Ewing: Mr Rumbles asks a perfectly reasonable question, and we will do what he has suggested.

Perhaps I might make a slightly different point. Many EU states have negotiated top-ups to their rural development budgets but, unfortunately, the UK Government did not. Ireland negotiated a top-up and its average per hectare P2 payment rate is almost six times that of Scotland’s. From the point of view of seeking to maximise the budget, it is most unfortunate that the UK did not take a different approach.

The Convener: That is very different to the point made by Mr Rumbles in his question. Richard, you wanted to make a point.

Richard Lyle (Uddingston and Bellshill) (SNP): Yes, convener. Surely the £89 million or whatever that we are paying out in staff costs is included in the administration cost that Mr Rumbles has asked about. I really do not see what he is getting at. We are paying out staff costs, and the staff are doing everything right across the board, including administering the CAP payments. The answer is in the staff costs, surely.

Andrew Watson: You are correct. Table 12.02 shows the area operations costs that we have described. As David Blair has said, the £86 million budget will cover all our functions, some of which have nothing to do with the CAP IT system. They also cover the cost of, for example, the science and advice for Scottish agriculture division, animal health and welfare and policy development elsewhere in the portfolio. The figure is holistic.

The Convener: It would help the committee if we could understand how much it costs to make the pillar 1 and pillar 2 payments to the farmers as listed in table 12.02.

Fergus Ewing: Those are perfectly reasonable questions, and we will write to the committee on them. The point that Andrew Watson has made is that a large number of different divisions, not simply those dealing with CAP IT, are involved. There are lots of other functions relating to a whole range of rural activity and policy. In our reply, we will try to address that in the round and look at the various costs relating to each of the functions, if that would be helpful to Mr Rumbles and the committee, convener.

The Convener: Thank you very much for the offer. Yes, that would be helpful.

Richard Lyle: Good morning, cabinet secretary. I want to turn to forestry. In October 2018, the Scottish Government published its economic action plan, which stated:

> "we are committed to meeting our target of planting 10,000 hectares of woodland every year, and increase this by a further 50% by 2025".

The budget for woodland grants remains at £46 million. We planted only 7,100 hectares of woodland in Scotland in 2017-18, and the 10,000-hectare target was never met. Confor stated that, in order to meet that target, the budget would need to be increased by £15 million. What, in your opinion, is preventing the 10,000 hectares per year planting target from being met?

Fergus Ewing: If I may, convener, I will bring in Jo O'Hara in a minute to answer your question in detail. Suffice it to say, though, that we are making very good progress in the planting of both native and commercial species, as has been recognised by Confor, the sector and the non-governmental organisations. Although we have not met the target for some years, we are working very hard to ensure that that will change in future.

I will make one further point, to which I alluded in my opening remarks. Because the price of timber is at an all-time high, the commercial receipts of Forest Enterprise have been commensurately high. That has allowed us to use additional funding to invest in replanting for the future, as members might expect and as I think is prudent. If a series of more technical responses is required, perhaps Jo O'Hara can amplify what I have said, but, as always, Mr Lyle has raised an extremely important topic.

Jo O'Hara (Scottish Government): Thanks for the question, Mr Lyle.

The total of 7,100 hectares is what was achieved in the 2017-18 planting season and the funding for that was included in the 2017-18 budget. Last year's budget for grants is the same as that projected for next year.

In the current year, we have approved applications for more than 10,000 hectares, and we have the budget cover to fund those. As the committee will be aware, forestry grants are structured in such a way that there is a large payment in year 1 and smaller annual payments subsequently. The figures that Confor put forward were for the total payment, which squashed together the subsequent years' payments and the upfront costs. In the current year and next year, we have enough to pay for the upfront—or year 1—costs plus the historic payments, which are for a smaller area in subsequent years.

That is why the maths is wee bit complicated. We cannot just say that because it will cost £4,500 for a forestry scheme, we will need £45 million for 10,000 hectares, because there is a tail to that payment. The money that we have in the draft budget is the same as we have had for the current year, which is sufficient to pay for the 10,000-hectare target to which we have committed. We have enough approved applications for the current year of 2018-19 and we have almost enough submitted applications—9,500—for next year. That is how the numbers tie up.

Fergus Ewing: Some of those applications can move to the right, so we are hopeful—though not complacent—about meeting this year's target. We are working very hard to achieve that.

Richard Lyle: That is welcome news. As I said earlier, Confor continually tells us that we have to plan for tomorrow.

We are still importing wood, but the price has gone through the roof. Will the budget for woodland grants increase over the coming years to meet the 2025 target?

Fergus Ewing: There will need to be a commensurate increase in the budget, because, as Mr Lyle knows, the target is currently 10,000 hectares, but it rises on a stepped basis to 15,000 hectares by 2025.

We have been heavily reliant on the EU for our forestry funding, as the funding is made under pillar 2 of the CAP. The question remains as to what will replace that existing EU funding. The current position is that contracts entered into up to the end of 2020 will be honoured, but there is no assurance beyond that.

When I met Michael Gove on Monday, one of the many things that I raised with him was further assurances that funding will be available. The reason I did so was that Confor—in the form of Mr Sulman, I think—wrote to Mr Gove, pointing out that the process for an average woodland scheme takes 18 months, and that nurseries work on a three-year timescale, as they need to work out what their stock will be three years in advance. There is only a small number of nurseries in Scotland and they need to plan ahead and have investor confidence.

As Confor, which represents growers on the commercial side, has indicated, there are some signs that investment confidence is being slightly impaired by the lack of clarity beyond the 2020 year end. Therefore, Confor has asked for, at the very least, the same assurance for forestry as has been received for farming, which is that there will be funding up to the end of 2022. I asked Mr Gove whether that could be done, but he appeared to say no.

Peter Chapman: There is a big interest in planting more trees, and I am pleased to hear that you are heading towards the planting of at least 10,000 hectares this year. How flexible can we be in getting to 15,000 hectares? Are we going to ensure that that does not happen before 2025, or is there enough flexibility that, if bids came forward to plant 15,000 hectares before 2025, we could fund that?

Fergus Ewing: I will answer at the high level and, if Jo O'Hara wants to come in with detail, she can.

We have to budget for meeting the target. We do not plan to budget for meeting it plus 50 per cent. There is funding sufficient for meeting the target, not meeting it and exceeding it by 50 per cent, which is the point that Jo made. There is plainly a desire to do more in forestry and, I am pleased to say—and as Mr Chapman knows—that desire is extending to an increasing number of farmers, crofters and smaller landowners. I am keen to encourage that process and make it easier. We want more applications to come forward, but we need the budget line, so I hope that we can work more in partnership with the UK Government to do that.

We have not promised for sure that we will meet the target this year, although we are hopeful. I would far rather underpromise and overdeliver than the converse.

The Convener: We will go on to the next question, as Jo O'Hara nodded that she was happy with that and had nothing to add.

Colin Smyth (South Scotland) (Lab): I have a follow-up question. I appreciate that most of the impact on small rural communities and rural roads comes at the point of extraction, rather than planting. What is likely to happen to the timber transport fund? There was an increase last year, but I cannot see a budget line for it so I do not know what it will be. The timber transport fund is really important to communities that are impacted by the growth in forestry. Will it continue to be increased?

Fergus Ewing: The £5 million is being paid by Transport Scotland. We have found efficiencies in that, the detail of which we can perhaps write to the committee about, as it is not entirely straightforward.

One of the decisions that I made at the outset was that, because of its importance, we need to do a bit more to enable access our forests, whether through provision in road, rail, bridges or sea. Conversely, if we do not do that, trees can become windblown once they reach maturation and the commercial value can deplete either to zero or, at least, to a much lower value. Environmental degradation can also flow from that.

Therefore, it is a good investment to invest further in our timber transport fund. Thanks to professionals such as Alistair Speedie and local committees throughout the country that look at local circumstances, we have invested the money pretty wisely. We have a whole list of projects that have been enabled by the additional funding. That has been put forward at my behest, and I am happy to produce that list for the committee.

I would welcome the committee's support for our continuing the funding. The areas that would benefit would include Gail Ross's Caithness and Sutherland, where there is a large number of forests that are sort of entrapped and where access to get the mature trees out is increasingly difficult, largely because of logistical transport reasons.

10:45

Colin Smyth: To be clear, do we know what the figure is for this year? Last year, there was a welcome rise from, I think, £5 million to £7.5 million. Will that figure of £7.5 million continue, or is the base figure £5 million?

Jo O'Hara: I can answer that, if it would be helpful. The £5 million, which is from the transport budget and does not appear in this budget, will continue. As Mr Ewing said, that was new money two years ago. Therefore, over the past two years, an extra £10 million has gone into timber transport, in addition to the money in our budget. As Mr Ewing said, we have a list of all the schemes. This year, we are maintaining the additional money, which was new money that came in two years ago, and there is a small reduction in the contribution from the Scottish forestry line into timber transport. However, the net impact is that we are retaining a substantial uplift on where we were two years ago.

Colin Smyth: I probably have not followed you so, to be clear, will the timber transport fund remain the same this year as it was last year?

Jo O'Hara: It is reducing by £800,000, but that is from a total of £7.5 million, and not the total of £2.5 million that is shown in the budget.

Colin Smyth: The simple point is that, from what I understand, in 2017-18, the timber transport fund was £5 million, which was available in grants that were often match funded by local authorities. Last year, the level went up to £7.5 million—

Jo O'Hara: It was £7.5 million the year before that as well.

Colin Smyth: Yes, but it is not £7.5 million for 2019-20, in terms of the grants that will be made available to projects that local authorities will bid for. Will £7.5 million be available for such grants this year?

Jo O'Hara: Under our current proposals, that will reduce by £800,000.

The Convener: I have a question for the cabinet secretary on something that I have struggled to find out—perhaps he can point me to it. What are the predicted forestry sales in the forthcoming year and will they match the predicted purchases? Have sales matched purchases for the past five years? I am happy to receive a written answer to that.

Fergus Ewing: Just to clarify, do you mean sales of holdings of land as opposed to sales of timber?

The Convener: Correct—I mean sales of the asset.

Fergus Ewing: That is a perfectly fair question, and we discussed the issue during the passage of the Forestry and Land Management (Scotland) Bill. I think that Forest Enterprise Scotland primarily deals with that, so we will go back to it. Jo O'Hara heads up Forestry Commission Scotland. We will ask Trefor Owen to provide a letter to the committee with that information.

The Convener: As a follow-up question, where does the money go if there is a balance, or if there is more receipt than expenditure? In other words, if you get more from land sales than you pay for land purchases, where does that money go? It would be helpful to have a written answer on that.

Fergus Ewing: Obviously, we need to look at activity in the round, including the commercial income from the sale of timber, which is a major and successful part of forestry. Also, we cannot ignore the fact that around £10 million per annum comes from renewable energy because of the success of the renewable energy policy. It has been a fairly successful story, and the more successful it is, the easier it is for that money to be reinvested in plantings and purchases of new land for forestry.

The Convener: I take that point. The specific point that I am asking about is to do with sales of land rather than sales of timber or other income received.

Jo O'Hara: Obviously, with an annual budget cycle, the figures do not match up in any one year, so—

The Convener: That is why I asked for the figures over five years, so that I can see how they balance. The Scottish Parliament decided some time ago that land in the forest estate could be sold but would have to be replaced, and I want to understand how that is happening.

Peter Chapman: At the beginning of last week, it was widely reported that the cabinet secretary had confirmed that the 2019 LFASS money would be cut by 20 per cent and the 2020 moneys would be cut by 60 per cent. Three days later, during a debate in the chamber, the cabinet secretary confirmed that there will be cuts of 20 per cent in both years. I very much welcome that, but I wonder what changed in three days—

Stewart Stevenson: Nothing.

Peter Chapman: Did the EU change the rules? Are we talking about new money and a new scheme? How has the cabinet secretary managed to achieve that change?

The Convener: Stewart Stevenson, you have been commenting, but it is fair to let the cabinet secretary answer the point. You might disagree with a fellow member of the committee, and I am happy for you to do so, but when a question is asked you should not answer for the cabinet secretary. I make that observation.

Fergus Ewing: With respect, Mr Chapman, I do not agree with your characterisation of what has happened, although I think that I understand where you are coming from. Let me talk through where we are.

First, it is important to stress that this year, which is the 2018 LFASS payment year, LFASS is being maintained at 100 per cent. It was to have been reduced to 80 per cent, but because of the late intervention by the European Parliament, permitting it to remain at 100 per cent, we took the decision, towards the end of the financial year, to maintain it at 100 per cent.

It is important to stress that position, because there is a slight risk that people who are listening to the discussion will think that their payments will be reduced this year. That is not the case, and I think that Mr Chapman understands that. It is useful to clarify that for the record.

Secondly, the position in respect of next year is that, according to the EU CAP rules, the maximum payment under the regime can be 80 per cent. In the following year, the proposal was that the payment must be reduced to 20 per cent, but that was changed to 40 per cent, following intervention from the Commission and the Council—the matter was discussed at the December agriculture and fisheries council in Brussels, which I attended.

The issue about going to a proportion that is lower than 80 per cent is simply that the EU rules have changed. What has not changed is my approach to the issue: we will maintain payments at 100 per cent this year; next year we have committed to maintaining payments at 80 per cent; and in the year after that we have committed to finding a workaround so that we can maintain them at 80 per cent—in other words, a payment to farmers and crofters at below 80 per cent is not acceptable to me and this Government.

I say in fairness to myself, Mr Chapman, that I made that clear in the chamber, I think on two occasions, prior to the debate last week. However, I can understand where confusion might have crept in. I hope that I have dispelled that today.

My final point is this: I do not want to see the payment reduced to 80 per cent. I would like to find a means of avoiding that, if possible. It is reasonable to hope that the review that Lord Bew is undertaking—incidentally, that is no longer really a convergence funding review; Michael Gove said on Monday that it is a UK interallocation review, and I can explain that if I am asked to do so—will result in additional funding being released that will be sufficient for us to fund a workaround that maintains LFASS payments at 100 per cent in 2019 and in 2020. We are working with stakeholders towards that objective.

Peter Chapman: Well, there was confusion. You need only look at the front page of the *Scottish Farmer* last week, which categorically stated that you had said that those cuts were coming down the line. I make no apology for saying that.

How confident are you that you can maintain the cut at 80 per cent in 2020? You talked about a "workaround". We will still be under the EU's rules in 2020, as I understand it. Will what you propose be allowed? How confident can our farmers be that you will be able to maintain the payments at 80 per cent rather than 40 per cent in 2020?

Fergus Ewing: We will work extremely hard towards that objective, and I have described one route by which that could be done. I should also say, for the sake of completeness, that we have been working—Kirsten Beddows has been involved in this work for us along with other officials—with key stakeholders, including NFU Scotland, to find a workaround. There are at least two ways by which that could be done, of which one is through de minimis payments up to €15,000 and the other is through flexibility. Those are complex matters and there are technicalities involved, but it is my hope that, sooner rather than later, we can find a workaround.

I should stress—Ms Beddows would correct me if I did not—that one of the difficulties about finding workarounds is that the rules have not been established and set for the years 2020 and 2021. Therefore, in the absence of clear rules, a workaround of those rules is logically not entirely possible, other than in outline or in theory. However, I am determined to provide continued hill farmer support, because there is no doubt that it is absolutely essential. It would only be with great reluctance and there being no other practical options that we would be forced to see a reduction to 80 per cent. The Scottish Crofting Federation has said that that is just about liveable with, but I would prefer not to put that to the test, if possible.

I hope that the UK Government will also accept its responsibilities for hill farmers in the post-Brexit situation—if, indeed, we are going to be in that situation.

Maureen Watt (Aberdeen South and North Kincardine) (SNP): I think that the equivalent in England of LFASS was stopped in 2010. Do we know what the effects of that have been on hill farmers there? That might give us an idea about what could happen in Scotland. On convergence, it looks as if we just have to write off the fact that the £167 million—I think—that we were due has not come. I understand that another amount of convergence funding has come from Europe in the meantime. Is there any chance that we might get that?

Fergus Ewing: First, we have certainly not written off the claim of Scotland and its hill farmers and crofters for the £160 million, which was intended by the EU for those farmers who qualified financially. Only Scotland's hill farmers qualified financially—that is just a matter of incontrovertible fact. We therefore have not abandoned and will not abandon or write off that claim for £160 million. I assure Ms Watt that we have also said that if we are successful in recouping that money from the UK Treasury, which applied it for other means, we would ensure that the farmers and crofters benefit therefrom.

Secondly, on the question of the position in England, I can confirm that England ceased its less favoured areas support scheme in 2010. Quite what England has replaced it with, I am afraid I do not know. I do not spend that much time studying the English system, because I have enough on my plate dealing with the Scottish one, which I hope you understand. However, we have decided that in Scotland, with our devolved powers, LFASS is an important means of providing essential support for those who most need it, which is the key point.

Finally, on the convergence point, Michael Gove agreed around the end of 2017 at a meeting with me and subsequently that there would be a convergence review. That, of course, was promised by Owen Paterson back in 2014, I believe. What we have now was described by Michael Gove on Monday as a UK interallocation review, because the Treasury intervened and changed the terms of reference unilaterally without consulting the Scottish Government or, indeed, the other devolved Administrations. The Treasury therefore specifically excluded from the remit of the inquiry looking at any adjustment of funding prior to now. In other words, the Treasury specifically ruled out any revisiting of what happened to that £160 million. I think that that is completely wrong and indefensible.

However, as Ms Watt rightly says, there is the possibility of other convergence funding coming forward, so I felt it prudent to allow the review to go ahead to look at that particular issue. I am afraid, though, that Mr Gove has broken his promise. He promised that there would be a convergence review, but he now admits that the present review is not a convergence review. Therefore, it is absolutely right and proper that I, as the Scottish farming minister, do not let that drop but pursue matters in a pragmatic way as well as in a principled fashion.

The Convener: Peter Chapman's question will be the final one.

11:00

Peter Chapman: Let us hope that we can contain the cuts to LFASS to 20 per cent. Have you looked into what kind of serious effect even that 20 per cent cut might have on our farmers in Scotland who are most under pressure?

Fergus Ewing: Obviously, under the current rules, LFASS claimants will be, for the most part, entitled to single farm payments, so LFASS is not the sole source of income. However, I am aware and apprised of how important LFASS is. This year, we are maintaining it at 100 per cent. As I have described, I would like to see what we can do to avoid going to 80 per cent, if we can find a method of doing so. I do not want to raise expectations unduly highly, but that is my hope and intent.

The real threat to hill farmers at the moment, however, is the loss of EU markets for our lamb. I heard yesterday at a food resilience meeting that it is expected that the price of lamb will halve in the event of a no-deal Brexit, with very limited opportunities for hill farmers either to delay going to market or to find a better price elsewhere. I therefore suggest that the no-deal situation is the immediate threat and that we need to get it off the table now, using the powers that there are for that purpose. We can then get back to trying to work out sensible policies for supporting our hill farmers in Scotland.

The Convener: The last point was a purely political one. We would very much welcome the answers to some questions that we have asked as part of the budget scrutiny. I thank you, Mr Ewing, and your officials for coming along this morning and answering our questions. The clerks will liaise with your office regarding the other answers that we have asked for.

I now ask committee members to take no more than a five-minute break.

11:01

Meeting suspended.

11:09

On resuming—

The Convener: We resume the meeting with our second panel of witnesses. I welcome the Cabinet Secretary for Transport, Infrastructure and Connectivity, Michael Matheson, and the following Scottish Government officials: Frances Pacitti, director, aviation, maritime, freight and canals; Mike Baxter, director, finance and corporate services; and Robbie McGhee, head of digital connectivity policy.

Cabinet secretary, I would be delighted if you could make an opening statement of no more than three minutes.

The Cabinet Secretary for Transport, Infrastructure and Connectivity (Michael Matheson): Thank you, convener. I welcome this chance to give evidence on how my portfolio spend will contribute to our programme for government commitments.

Our overarching aim is to promote sustainable and inclusive economic growth through extending superfast broadband and 4G mobile coverage; investing in low-carbon transport and promoting active travel; enabling better journey times, connections and quality and reducing emissions; supporting economic development in cities and their regions; modernising Scotland's energy system; tackling fuel poverty and improving energy efficiency; and supporting low-carbon infrastructure transition. Those measures are reflected in the £259 million or 10 per cent overall increase in the transport, infrastructure and connectivity budget in the 2019-20 budget.

I want to highlight the issue of ferry services, given the committee's pre-budget scrutiny of the area. We will continue to support ferry services on the Clyde and Hebrides and northern isles routes, boosting those economies and the sustainability of those communities. We have maintained the road equivalent tariff fares on the Clyde and Hebrides ferry services and the reduced passenger and car fares on the Shetland services. We will continue to address the complaint against our proposal for RET on the northern isles route, and we will maintain local government funding support for interisland services. The significant increase in port and vessel capital in 2018-19 secured ownership of three Ropax vessels that served the northern isles. In 2019-20, we will continue to provide loan support to fund the construction of two dual-fuel vessels at Ferguson Marine Engineering Ltd on the Clyde, and we will invest in our piers and harbours.

This year, 2019, will be a milestone for digital connectivity in Scotland. We will not only continue to deploy digital infrastructure across the country through the digital Scotland superfast programme but award contracts for the reaching 100 per cent programme.

We will continue to improve physical connectivity, journey times and connections, maintaining our commitment to invest £80 million in encouraging a greater shift to active travel by helping to create high-quality walking and cycling infrastructure. We will also continue to provide concessionary travel for older and disabled people and support bus services, the use of greener, less-polluting vehicles and smarter ticketing. There is also a significant uplift in capital investment for Scottish Canals and Highlands and Islands Airports Ltd.

We will continue to make significant investment in Scotland's railways through the rolling programme of electrification, the redevelopment of Glasgow Queen Street station and improvements to routes between Aberdeen and Inverness and Inverness and Perth. We are tackling overcrowding on Scotland's railways by adding 200 extra carriages to the ScotRail fleet and introducing 26 refurbished high-speed trains to operate on intercity routes with 40 per cent more seats. The roll-out of the new sleeper rolling stock will deliver a step change in overnight rail travel for passengers.

The 2019-20 budget for transport, infrastructure and connectivity supports the development of a more inclusive and sustainable economy for Scotland.

The Convener: You were very close to testing my time limit, cabinet secretary. Thank you for your opening statement.

John Finnie will ask the first question.

John Finnie (Highlands and Islands) (Green): Good morning, cabinet secretary and panel. I want to ask about ferries. The committee is grateful for the very detailed response that it received from Mr Wheelhouse with regard to our examination of ferry services. In that response, he mentions

"the new vessels 801 and 802, their introduction into service to provide additional capacity and resilience".

I note that the budget contains a £4 million ferry resilience fund. What will that be used for, and will it be sufficient for the purpose of improving operations?

Michael Matheson: The purpose of the fund is to provide a level of resource for Caledonian MacBrayne to invest in key components that it knows could have an impact on the performance of its vessels. Given the age of the fleet, there might be equipment that needs to be replaced, and the fund will allow it to undertake that work earlier, which will reduce the risk of any mechanical or electronic difficulties arising in the vessel that might impact on its being in service. The fund is a resource over and above Caledonian MacBrayne's normal maintenance budget that will allow it to make certain specific investments in vessels or to hold in stock equipment that it can use very quickly to replace anything and to minimise any disruption in the event of a mechanical problem.

11:15

John Finnie: The northern isles interisland ferries also have an ageing fleet with significant challenges. I assume that that fund cannot be used there. If not, will you consider making funds available for the interisland ferries in the northern isles?

Michael Matheson: We make funding available through the local government settlement. Just over £10 million is provided to Orkney Islands Council and Shetland Islands Council to maintain and continue to provide interisland services. The vessels are in the ownership of those respective councils, so it would be for them to decide how they want to use the money that we allocate through the local government settlement, whether it be for maintenance or other purposes. We provide money to those councils for that purpose.

John Finnie: I am sorry but I thought that you nodded when I said that they had an ageing fleet. Some of that fleet is not compliant with the Disability Discrimination Act 2005. Would you be interested in taking over that fleet and giving it some resilience?

Michael Matheson: Would we be interested in taking over the fleet?

John Finnie: Yes.

Michael Matheson: We have said to the councils that we are prepared to look at the possibility of doing so on the basis that there would be no financial detriment to the Scottish Government and that there is a clear line to the replacement of the vessels. That undertaking is in the current ferry plan.

As things stand, that work has not been taken forward to the level of detail that would be necessary for us to proceed. However, my general view is that having interisland services provided and managed by those local authorities gives them a level of control over how those services are run in the local area. We will continue to have discussions with the councils but there are no plans in the immediate future for us to take over the interisland ferries.

John Finnie: Do you not think that the situation with Comhairle nan Eilean Siar not operating its own fleet is anomalous?

Michael Matheson: No. There are ferries that are operated by Highland Council and Argyll and Bute Council on a couple of routes. It is not just Orkney and Shetland that operate fleets.

John Finnie: I will change tack, cabinet secretary. In the papers that members have in front of them, there is a table with the level 2 spending plans. It shows that there has been a increase, albeit modest, in a number of the lines. The line that I am interested in is air services, which appears to have gone up from £59.8 million to £67.7 million. I did my sums a wee minute ago, and that appears to be an increase of about 12 per cent, perhaps more. Why that increase?

Michael Matheson: There is an increase in the allocation of the resource grant for Highlands and Islands Airports Ltd. That reflects additional funding that relates to an increase in pay and pensions, and operational cost pressures. There is also an increase in capital investment, which is required for regulatory authorities to maintain their asset base. It supports additional capital investment in the structures and facilities that they need to make sure that they are meeting the regulatory requirements of the Civil Aviation Authority and so on, and to allow them to make further investments in their airports.

John Finnie: It is a significant increase, is it not?

Michael Matheson: It is.

John Finnie: Would you be able to provide the committee with a more detailed breakdown of what that increase is expected to cover?

Michael Matheson: I would be more than happy to do that.

John Finnie: Many thanks.

The Convener: If that could be submitted in writing to the committee, it would be helpful.

Jamie Greene has a question on ferries.

Jamie Greene (West Scotland) (Con): Thank you, convener. We are doing budget scrutiny, so I will try to stick to numbers rather than talking about the politics. According to my papers, of your £2.6 billion transport budget, only £14 million is allocated to new vessels. Is that for an existing contract or for new new vessels?

Michael Matheson: Are you referring to vessels 801 and 802?

Jamie Greene: Yes—if that is what that money is allocated to.

Michael Matheson: It will be, yes.

Jamie Greene: Is it correct to say that there will be no other investment in new vessels in the forthcoming budget year?

Michael Matheson: When I was here in December, you will recall that I said that we were taking a stocktake of our existing procurement arrangements for vessels and of our existing fleet. We will review how that is working, with a view to bringing forward a much more comprehensive plan on future ferry investment, which would include a timeline on how that work could be taken forward. The plan would give greater transparency and it would help the industry to know what the Government's procurement arrangements will be. That work is being undertaken, and I hope that it will be completed in the first half of this year. We are doing the work so that we have a clearer line of sight of what the investment will look like in the years ahead.

Jamie Greene: That is welcome, because the committee has said that a long-term strategy on ferry procurement would be helpful. However, it is fair to say that no new additional money has been allocated for new vessels in the next financial year. I am just making that observation.

Michael Matheson: No money has been allocated for additional vessels at present.

Jamie Greene: If we add the £14.2 million in the budget to the £59.18 million from last year, I make that about £73 million. Is that the estimated cost of hulls 801 and 802? If so, what is the total estimated cost of building the vessels that have been commissioned? Does that include or exclude the known overruns? If it does not include those overruns, and if the Government is found to be liable for them, has it built in any contingency for the cost?

Michael Matheson: I will ask Mike Baxter to respond on the specific details in relation to the vessels.

On the question of whether there is finance to deal with any claim, Jamie Greene will recognise that it would be only a claim and that any successful claim would need to be considered at that particular point. I will not include provision for dealing with a claim in the budget, on the basis that we might not accept that a claim is correct. As you will be aware, Ferguson's has lodged a claim with Caledonian Maritime Assets Ltd, which is assessing it. The claim will be given due consideration in the months ahead.

Jamie Greene: We are talking about a substantial amount of money—up to £30 million or £40 million at least. That is not an insignificant number.

Michael Matheson: It is not an insignificant number, but I am not starting from the premise that we will just accept the number from Ferguson's in the first place.

Jamie Greene: What about the total cost?

Mike Baxter (Scottish Government): The cumulative provision for vessels 801 and 802 is £97 million over a number of years, which reflects the contract value.

Richard Lyle: I, too, am looking at the level 2 table. The Government has received quite a lot of criticism with regard to rail services over the past couple of months but, from 2018-19 to 2019-20, the budget for rail services will increase by about £180 million. Rail services will have a budget of £11 million short of £1 billion next year. Is that increase to fund all the new items that the cabinet secretary detailed earlier?

Michael Matheson: The increase is, in part, to deliver the new sleepers and to pick up some of the associated capital costs. The increase is also a reflection of the change in the way in which funding is being provided to rail. Mike Baxter will be able to explain that some technical changes have been made, such as the use of grant funding, which are reflected in the budget line. Overall, the increase reflects the fact that investment in our rail services continues to be a key priority for the Government.

Richard Lyle: It is a major investment.

Michael Matheson: Very significant investment has been undertaken over a number of years, and that investment will continue in the budget.

I ask Mike Baxter to explain the technical changes to rail funding, particularly in relation to Network Rail.

Mike Baxter: For the previous five years, Network Rail has been funded through the UK Treasury and debt funding—what is known as the regulatory asset base. From 1 April 2019, the arrangements for the funding of Network Rail will change across the UK. The funding will be through a direct grant from the Scottish ministers to Network Rail. There have been negotiations with HM Treasury over past years about what the settlement should be for the five-year period commencing on 1 April 2019. The budget reflects the phased drawdown of that settlement for the first of the five years.

There has been a change in the basis of funding, in effect to a cash grant to Network Rail to support operations, maintenance and renewals as well as any enhancement projects. Enhancement projects will be a combination of those flowing through from the current control period—such as Queen Street, which has been mentioned—and planning for new developments to take place in control period 6.

Richard Lyle: So is it the case that we are giving money to Network Rail but we do not control it?

Mike Baxter: That is correct.

The Convener: If you will excuse the pun, we seem to have gone slightly off track. We were discussing ferries, but we have moved to railways. John Finnie may ask a question on railways, and we will then go back to ferries, because there are a lot of questions on that.

John Finnie: My question is on the specific point that was raised by Mr Lyle.

Last year, there was a dispute about the formula by which money came to Scotland for Network Rail. Has that been resolved? There was a shortfall in the moneys that Scotland was due.

Michael Matheson: There is still a difference over that matter. Mike Baxter will respond.

Mike Baxter: Scottish ministers put forward their views about the basis of the allocation. They did not agree with the Treasury allocation. The funding that we will receive is what the Treasury has allocated, so the issue remains unresolved.

John Finnie: Can you confirm that the formula that was applied by the Treasury, which sold Scotland short, had changed?

Mike Baxter: That is correct.

Michael Matheson: The point is tied to what we believe has been historical underinvestment in Scottish rail infrastructure, which we now have to make up.

John Mason: I understand that there is a project to build a hydrogen-powered ferry that could be used in Orkney. Will you update the committee on that? How much money is the Scottish Government providing, or are other partners putting in the money?

Michael Matheson: We have supported the HySeas programme through both Transport Scotland and Scottish Enterprise. It is now led by Ferguson Marine Engineering Ltd, which has secured some £9 million from the European Union to help with the development of a hydrogen-based drive train for a vessel. Ferguson's expects to undertake initial work later this year, with a view to a vessel late in 2020. My view is that the timeline for that project is ambitious.

John Mason: I am encouraged by that. I am enthusiastic about hydrogen as a potential fuel. Does Ferguson's definitely have the capacity, including the physical capacity, to do this? Committee members have visited the site, and it is not huge. If the dual-fuel vessels are still being built, will it be possible to build the hydrogen vessel too?

Michael Matheson: It depends on the size of the vessel, and that has not been finalised yet. It depends on what is specified in the procurement for what is an interisland—and therefore a smaller—ferry. Whether Ferguson's has the capacity to deal with it will depend on the size and the complexity of the vessel.

John Mason: Are the two vessels that Ferguson's is building still on time? We were told that one of them was to be ready this summer.

Michael Matheson: Ferguson's still states that it is working to that timeline. We have independent advisers who are monitoring progress, but Ferguson's says that it can deliver those two ferries—801 and 802—to that timeline.

John Mason: Do you believe that?

Michael Matheson: It remains a challenging timeline for Ferguson's to meet.

11:30

The Convener: My next question has partly been answered. When you took over the portfolio, you no doubt looked at "Scottish Ferry Services: Ferries Plan (2013-2022)", on which you will have based all your predictions on future procurement. If you had that document with you, you would see that it says on page 14:

> "We will replace vessels according to their life expiry and will base investment decisions on an analysis of whole-life costs and benefits with the objective of covering, as far as possible, capital costs by savings in operating costs and increases in revenue".

That is a truly ambitious target, and is completely unachievable if two ferries cost £97 million.

The three ferries the Isle of Arran, the Isle of Cumbrae and the Lord of the Isles are all over 30 years old and all had more than seven faults last year that took them out. Some of those faults were extremely expensive to repair. Surely the ferries plan, which was the basis of the Government's future procurement, should have allowed for the identification and purchase of vessels—over and above 801 and 802—to replace vessels, which 801 and 802 will not do. What has happened to that investment?

Michael Matheson: It is important to recognise that there has been significant investment in ferries and harbours over the past 10-plus years. However, some of the capital costs associated with investment in ferries, harbours and ports are great, and we have had to try to manage that within very strict budget constraints. That has had a direct impact on a whole range of investment opportunities and choices. There is no doubt that the financial limitations that we have had as a result of cuts to our budget in recent years have had a direct impact on decisions and the ability to make forward investment.

As I mentioned earlier, I want to have a clearer line of sight around our deployment and replacement programme and what that will look like with new procurement arrangements. That is exactly why we are taking forward the review of deployment and procurement, which will tie into our investment plan. The work that we will do over the coming months will help to inform the future direction.

The Convener: I hope that it will not be based on the principle of deciding what you can buy according to the cost savings that you will achieve. If a ferry came along at the right price that would provide what we need to service the islands, would you still buy it?

Michael Matheson: If there was a one-off opportunity for us to procure a ferry that could serve the network, we would look at that opportunity very seriously. In fairness, CMAL is actively looking for any ferries that come on to the market that could potentially be brought into the fleet. If there was an opportunity, we would give due consideration to that.

The Convener: When the new ferries plan comes out to replace the current plan, which is only halfway through its life, will you commit to ensuring that the work that is identified in it will be financed in forthcoming budgets, so that its aspirations are delivered?

Michael Matheson: It depends on future budget decisions. The purpose of carrying out that work is to have a clearer line of sight and a clear plan of what those investments should look like, to inform our decision making. The intention is to achieve that in a more effective way than we have done, but it is clear that that depends on future budget arrangements within the Government overall.

Jamie Greene: You will have read our letter about our concerns that many vessels are reaching the end of their lifespan—the convener alluded to that. Many island communities have been let down hugely by vessels going offline, technical issues and people finding it difficult to replace parts, for example.

I appreciate that you talked about your £4 million resilience fund, but that does not replace vessels, some of which are very old. What reassurances can you give to the committee and the wider public today that reliability and punctuality will improve, given that your budget contains no investment in new vessels?

Michael Matheson: It is wrong to say that it contains no such investment. Investment is going into the 801 and 802 at present—

Jamie Greene: To be fair, you have just said that they will probably not be delivered on time.

Michael Matheson: As an example of what we are doing, work on design and procurement is being done with regard to the Islay ferry, which is the next ferry that we would be looking to replace. It is not as though nothing is happening in that sense.

I want to pick up on punctuality and reliability. The statistics in CalMac Ferries' report show figures for reliability of around 97 per cent and for punctuality of around 96 per cent. We always want to see such figures improve, but those are very impressive. However, I recognise that it is extremely inconvenient when you are trying to get to an island and a ferry is cancelled, whether that is because of mechanical issues or the weather. That has a particular impact on those who live in our island communities, because they are so dependent and reliant on ferries.

At times, some vessels on particular routes might have had a greater number of reliability issues than those in the rest of the fleet. The resilience fund is about trying to address that so that there can be some forward planning in that regard. For example, often, a mechanical failure on a ferry is the result of a problem with a part that is not held in stock and which has to be manufactured. The resilience fund will allow CalMac to have certain items manufactured so that it can hold them in stock to reduce the time before it can make the repair. That sort of support will help to reduce the inconvenience and difficulty that is caused when mechanical problems arise.

As I said, the figures for punctuality and reliability are impressive, but we would always want them to improve. The resilience fund is a specific fund that will help CalMac to ensure that it can hold in stock some of the mechanical parts that it needs, so that it can improve reliability, in particular.

Jamie Greene: Punctuality is 0 per cent if the ferry does not run at all. That is what many people are facing, and that is the problem here.

Let us look at the timescales that are involved. There is no investment in new ferries in this year's budget—

Michael Matheson: There is investment in new ferries—there is investment in new ferries, right now.

Jamie Greene: There is a small line in the budget that relates to the cost of the ferries that have not been delivered.

Michael Matheson: You cannot say that there is no investment in new ferries when there is investment in the ferries.

Jamie Greene: There is £14 million out of nearly £3 billion.

Michael Matheson: That is a significant amount of money.

Jamie Greene: It is for an existing contract. My point is that there are no new contracts.

Even if your strategic review says that you will commission new ferries of whatever sort, how many years will it be, realistically, before we see the new vessels, knowing how long it takes to build ferries and the difficulties and complexities that can be encountered, especially when we are engaging with new technologies? We have seen such problems arise in relation to the late delivery of the two new ferries that have not been delivered into the network. Further, what happens to that ageing fleet in the meantime, when there are more and more breakdowns and cancelled services?

Can you understand people's perception that there is a looming problem for us if no new vessels are being commissioned, other than the two that are late, yet we have an ageing fleet and continuous problems? The two issues do not marry up. Why are we not making these decisions sooner?

Michael Matheson: First, on your point that many people are experiencing cancellations, I have just given you a figure of 97 per cent for reliability in the network at the present time. I also told you that punctuality is at 96 per cent.

I accept that, when there is a cancellation or a ferry runs late, it has an impact on people that can be very significant. I am not saying that there are not challenges around punctuality and reliability, but I think that the facts and the statistics that have been provided by CalMac demonstrate a good level of reliability and punctuality. However, there is a risk that, with an ageing fleet, issues around reliability could become an increasing problem. That has been the case for some of the vessels. In order to address that, we have created the resilience fund, which is there to support CalMac to ensure that, if it needs to, for example, upgrade electronic technology outwith its normal maintenance programme, it is in a position to do that, and to ensure that it can hold in stock items that it might require which, if they failed, would be critical to the operation of the vessel. That will enable CalMac vessels to be repaired much more quickly so that they can be brought back into use as soon as possible.

We have two new vessels under construction at present and we are looking at replacing the Islay ferry. Some of the design and works that will be necessary for that to go to procurement are already being taken forward. As I have already mentioned, we are looking at our whole procurement approach alongside the replacement programme that we will require for vessels and for harbours and ports, which are critical as well.

If your view is that the level of funding allocation for ferries in the budget is insufficient, I would be interested to hear the committee's views on which other part of the budget should be cut in order to allocate extra funding to ferries. I hear members saying to me that they want to see an increase in a particular budget line, but they also have the responsibility to identify where they want that money to come from.

The Convener: That is an interesting point, but it is asking this committee to do the work of every other committee in the Parliament as far as budget scrutiny is concerned. That would be a bit of a difficult question to answer.

Peter Chapman: We know that there are huge pressures on the ferries, particularly in summer with increased tourism. That is fine, but it has meant that locals have sometimes been unable to get a ticket at short notice to get off the island. There has been some talk about consideration of demand management measures to alleviate pressure at peak times. Do you think that that might mean higher fares at peak times? If that is not your thinking, what are your thoughts about how to manage that huge pressure at peak times?

Michael Matheson: The ferries plan set out the option of looking at the possibility of managing demand, particularly for routes that have RET in place and have increased demand. That allows us to look at a number of options, such as having higher fares at peak times or incentives for off-peak times, where there is capacity on the ferry. The question is whether there is a way in which we can shift some of the demand in order to utilise the resource much more effectively. We can look at a variety of options to help deal with the additional demand.

An important point is that demand management arrangements might be necessary for not every route but only some routes at specific times. Anything options will therefore be looked at on that basis. I am also clear about the need to ensure that we engage with both individuals and businesses in the local community regarding any demand management arrangements. If we are looking at having demand management arrangements on any routes, there will be engagement with the local community; any such arrangements will be put in place with the agreement of the local community.

As I said, we can look at a variety of options, but the process of ensuring that we utilise the resources as best we can will be done through engagement with local communities.

Peter Chapman: I welcome what you have just said, which is fine, but does it mean that some schemes will be in place for the coming summer, because it is a summertime issue?

Michael Matheson: I am not sure whether there is anything about this in Mr Wheelhouse's letter to the committee, but one of the things that we are taking forward is an action plan to look at, for example, the specific issue of those who live on our islands being able to get off the islands for medical appointments, funerals and so on. One thing that Paul Wheelhouse has been taking forward with officials is looking at putting in place some form of action plan that tries to address some of those issues. We would like to see that in place for the coming season, if possible. It is a challenging timeframe for us, but it is possible. Some of the work that is being taken forward is about trying to achieve that. I ask Frances Pacitti to say a bit more about that work.

11:45

Frances Pacitti (Scottish Government): Although we recognise that there are long-term replacement issues, the action plan is intended to look in the short term at customer experience and what we can do to ameliorate the impact of unavoidable delays when, unfortunately, they arise. Part of it will be about how we can encourage operators to communicate delays and contingency arrangements more effectively and to articulate better what steps they have undertaken in deciding what the contingency measures should be. That includes practical things such as looking at what information they have on their website, looking at alternative vessel deployment, exploring additional sailings and, when there are impediments to those preferred options, explaining to passengers why they cannot be delivered in the circumstances that prevail.

The second thing that the action plan will look at is practical measures such as what operators or passengers can do to mitigate the impact of delays, and it will provide help regarding who is responsible for providing alternative accommodation or routes, for example. Part of that will include looking at demand management responses.

To answer the specific question, it will be challenging to have that conversation by the summer, because we need to do it in consultation with all communities. Certainly, coming into the new season, one of our key priorities is to finalise the plan and make sure that it is well articulated, that people are aware of it and that it meets the demand that has been put to us.

Stewart Stevenson: Fortunately, I do not have any friends in Dunoon. CalMac has a great reputation for providing lifeline services, but more than 85 per cent of the traffic on the Gourock to Dunoon crossing chooses to use a commercial operator that runs a very successful service. Why are we subsidising a second service that Audit Scotland tells us will require substantial investment in new vessels?

Michael Matheson: You will be aware of our recent decision on the Gourock to Dunoon ferry service, which has been moved into the Clyde and Hebrides network and will be a passenger-only service. That is largely because, looking at the potential use of that route by vehicles, we see that the market space is very small. That service is not sustainable. Paul Wheelhouse and I decided that we needed clarity about how to take forward that service. We still see it as an important service to the community in Dunoon, which allows them to access Gourock and the rest of the central belt, and we want to maintain it.

The existing vessel will continue to operate on that route but, having made our decision, we will now be able to consider, as part of the replacement programme, what any future vessel for that route should look like. The decision will also allow CMAL, which owns the Gourock port harbour, to decide what investment programme to take forward. It is important to provide that additional link to communities in the Dunoon area, but deciding to make it a passenger-only service gives us clarity around investment in both the vessel and the harbour infrastructure.

Stewart Stevenson: The numbers that I have in front of me for the cost of potential new vessels to support that plan are substantial. I seem to recall that the subsidy that was being given 10 years ago to carry passengers on what is now a CalMac route exceeded the fare that the commercial operator was charging. It never seemed to make sense to have two crossings on the same stretch of water, especially as the sea crossing that CalMac operates is 50 per cent longer in steaming terms than the one that the commercial operator runs.

Michael Matheson: I will ask Mike Baxter or Frances Pacitti to comment on the history of that crossing. In terms of that community's resilience, providing it with an additional crossing from Gourock to Dunoon is important and we want to maintain that route.

The sustainability of many routes presents financial challenges. The Gourock to Dunoon route is not the only route where there are financial challenges in that regard but, given the importance of such routes to local communities, particularly where the route is their only lifeline, we have to maintain and continue them.

Having an additional passenger service continues to be important. We now have clarity on how it will operate, so we can make decisions that will allow us to improve what the ferry service and the harbour infrastructure will look like.

Does Mike or Frances want to—

The Convener: Sorry, but in the interests of managing the way forward, looking too far back into history may not allow us to get through all the questions of the present. Is there a very short 30-second potted history? If not, there are more questions about ferries, after which we will move on.

Michael Matheson: I think that there is a long history, so I do not think that it would be a short answer. If the member wants further information on the issue, I am more than happy to respond to him in writing.

The Convener: It would be helpful to have that information in writing.

Jamie Greene: Local ferry users on both sides of the Clyde are understandably dismayed that the tender was paused, back on again and then cancelled altogether. Why did you decide to award the contract directly? What is the basis of the legal advice on which you did not have to go to tender? Given that you have awarded the contract directly to an operator, can you, for the benefit of the users of that service—and bearing in mind that is it is one of the least resilient services—put a timescale on when a new vessel will be put in place, if that is what is to happen?

Michael Matheson: As I have just mentioned, now that we have clarity that it will be a passenger-only service, we can consider what a new replacement vessel could look like. That will be part of our procurement and deployment plan. There will also be investment into the harbour at Gourock in particular. That can be considered by CMAL as part of its investment programme. It is already considering what that investment should look like.

As you will be well aware, this is a standalone contract outwith the Clyde and Hebrides ferry services. Our view was that continuing to have it as a passenger-only service outwith that contract did not make any logical sense and that it would be better to draw it into the overall Clyde and Hebrides ferry services contract. That is the approach that we have taken.

I will ask Frances Pacitti to say a bit more about the decision on the matter. Clearly, legal advice was taken on our ability to do that.

The Convener: I am sorry to keep interrupting, but there are a lot of questions about the budget, so I would be very happy for that information on legal advice to be given in writing, if the committee member is happy with that approach. Are you content with that, cabinet secretary?

Michael Matheson: I am happy to do that, if Mr Greene is happy with that.

Jamie Greene: I am content with that.

John Finnie: You will give me a row after saying this, convener, but I will proceed. I applaud the cabinet secretary’s approach, which recognises that transport is not always about motor vehicles. Although the other service provides a passenger service, the direct link into town is complemented by the fact that when people get off on the south side, they can go directly on to a train and connect with other areas. Is that a factor that—

Michael Matheson: It is a factor. One thing that we have also given a commitment to do is to look at whether we can improve connectivity from the harbour. For example, we are looking at the possibility of a car club arrangement, with electric vehicles, which might help to—

John Finnie: You have spoilt it now.

Michael Matheson: No, that would support people who are coming off the ferry without a car. Given that they are electric vehicles, I am sure that the member would welcome that.

The Convener: Neatly done, Mr Finnie.

Colin Smyth: You will be pleased to know that my question is not on ferries, convener. I have a very brief question on the change in the budget for bus services. Last year, the budget included £10 million of transaction loan facilities for the bus industry, which ultimately was not drawn down. This year, that has been replaced by £3 million in direct capital funding, which means that the overall budget line for the level of support for bus services falls from £64.2 million to £57.2 million. Can you explain why the £10 million loan facilities were not used last year? What were the reasons behind that? Facilities were provided but ultimately, they were not drawn down and they were not used for the benefit of improving bus services.

Michael Matheson: The facilities were to be utilised by the industry as a loan fund for the purchase of buses. In the end, the industry chose not to use that option, largely on the basis that it could get as good a deal within the commercial market as it could from that particular arrangement.

You will also be aware that our access to such financial transaction arrangements varies from year to year depending on the Treasury and its arrangements. However, the main reason that they were not used is because the industry did not feel that the facilities offered it anything over and above what it could access through the commercial markets.

The Convener: Thank you. We have another non-ferry question now, from Mike Rumbles.

Mike Rumbles: My question is on Prestwick airport. I am aware that yet another loan has gone to Prestwick airport. Do you have any more plans to make any more loans to Prestwick airport in a future budget? Can you tell us how much money Prestwick airport owes the Scottish Government and can you give an indication of when we will ever get our money back?

Michael Matheson: Within this financial year’s draft budget, we have allocated just over £7 million of loans, which Prestwick airport can draw down. The loans are on a commercial basis and on commercial terms. Prestwick airport has drawn down £46 million on loans to date. This budget gives it an additional £7 million.

You will be aware that Prestwick published its accounts just before Christmas, which demonstrate that costs are down and revenue is up. That continues to be the pattern in this financial year; its costs are continuing to decrease and its revenues are increasing. As a consequence, the draw-down that it made in the most recent financial year was down from previous years.

Our investment in making loans available to Prestwick is a recognition of its importance as a strategic asset, not just to the local economy but to our national economy, given the significant industries that are associated with Prestwick, including the aerospace industry. In our view, it is important that we continue to maintain those industries in that particular area, given their important link to the airport.

Mike Rumbles: Does that mean that you do not expect Prestwick to pay back the money?

Michael Matheson: These are commercial loans, so they have to be repaid on that basis.

Mike Rumbles: By when?

Michael Matheson: I cannot give you a timeframe on that. Prestwick airport is operating in a challenging market, particularly when it comes to passenger air services. You have seen the challenges in relation to Glasgow and Edinburgh airports, and you can see the challenges around the situation that we have with Flybe at present within the aviation industry.

Prestwick is operating in a challenging market; it has a range of specialist skills, which is over and above what other airports can provide, particularly in relation to freight and the specialist nature of freight, which it is looking to expand and develop. It has been moving more and more into that space, which has been a key element in increasing its income.

The challenge with that particular sector is that money comes in bits and bobs—it does not all come in a standard line so that you know that over the next few years, you will always have X amount coming in; it goes up and down, so you have to pursue individual contracts.

It is a challenging environment but we should not underestimate the importance of Prestwick in relation to the wider economy, in particular the businesses that are associated with the airport.

Mike Rumbles: But that is my precise point—if you look at the profitability of the company, it is not profitable. Over the past 10 years—correct me if I am wrong—I think that it has been profitable in one year. It is not profitable at the moment; it has no chance of becoming profitable, from what I can see from its books.

What I get from your response is that you are indicating how important Prestwick is for the wider economy. I am not disputing that. What I am trying to get at is, looking at it from a financial point of view and from a budgetary point of view, whether that is a higher consideration for you than the consideration of paying the taxpayers' money back. Do we have any prospect of getting the taxpayers' money back? Are you making the political decision that it is far more important to have the airport for the general health of the economy, if I can put it that way, than to focus on getting back the money that we have invested in it?

12:00

Michael Matheson: We would like the airport, at some point, to be back under private ownership. That will depend on the market and the interest in the airport. As you are aware, in the meantime, the airport is operating at arm's length from Government on a commercial basis. It has been reducing its cost base and increasing its revenue in order to reduce the amount of money that it requires in loans from the Government. What happens in the future will be dependent on whether there is commercial interest in taking over the airport and on the ability of Prestwick's existing management team to draw in additional revenue. The team is actively considering its options.

The wider point that I am making is that simply walking away from Prestwick would have a devastating impact on the regional economy and on the businesses that are closely associated with the airport and the aviation industry, and the Government is not prepared to do that. We need to find a long-term solution, and we continue to try to do so. In the meantime, the management team is doing what it can to reduce its cost base and increase revenues. I know, from the discussions that I have had with the team, that it will continue to do that.

Richard Lyle: I have described Prestwick as the jewel in the crown. At the end of the day, no matter how many loans we give to the airport, it is a substantial asset and a major employer in Ayrshire. I have no concerns about how much money the Government gives the airport every year. Quite honestly, I think that it will be years before Prestwick is able to operate on its own. However, do you agree that the airport is a substantial asset and a jewel in the crown?

Michael Matheson: Prestwick is a very important national asset and is extremely important to the regional and national economy. We should not underestimate that.

The Convener: You said that Prestwick has been given commercial loans. My understanding, from what you have said, is that the airport has been given £42 million already and that it has the ability to draw down another £7 million, so the total figure is £49 million. A valuation of the asset will have been carried out last year, in preparation for the accounts. I absolutely understand the importance of the airport to the local economy, but can you confirm that, in order to secure those commercial loans and following an open-market valuation, the airport was valued at more than £49 million in fixed and tangible assets?

Michael Matheson: I will ask Mike Baxter or Frances Pacitti to respond to that question in more detail.

Mike Baxter: I do not have the figures to hand, but I am more than happy to clarify them following the meeting.

The Convener: I very much look forward to receiving the information on the valuation that you will have had done in preparation for the accounts. Thank you for that offer.

Maureen Watt: I want to move on to digital connectivity. My understanding is that the digital Scotland superfast broadband programme should have finished by now but, due to the success in uptake and the reinvestment of the money, the roll-out is continuing. Do you have an idea of when the programme will be completed, or will you let it roll on?

Michael Matheson: The DSSB programme has been very successful. Audit Scotland's report demonstrated that the programme has had a reach beyond its targets. The benefit of that is that we have a gainshare in the programme, which will allow us to provide broadband connectivity to 23,000 additional premises, over and above what was set initially. That work is being taken forward this year, so it does not appear in this budget line because the money has already been provided. We are also out for procurement for the R100 programme, which will be the next programme after the DSSB programme.

Maureen Watt: Do you see an end date for the superfast programme?

Michael Matheson: Do you mean the DSSB programme?

Maureen Watt: Yes.

Michael Matheson: It should be completed this year.

Robbie McGhee (Scottish Government): Yes. We anticipate that the end of this year—certainly the end of the financial year—will see the end of activity on the ground. We then move into the managed closure of the programme, which will take some time. Deployment on the ground will complete by the end of the financial year or, most probably, by the end of the calendar year.

Maureen Watt: Much more can be done on that. Colleagues I have spoken to have seen the Openreach vans in their areas but what is on the website does not match what is happening with connectivity on the ground. The website is a bit behind what is actually happening, so more can probably be done on that. That is just an aside.

What discussions has the Scottish Government had with the UK Government about ensuring a fair share of the £200 million that is available for the connectivity of the network?

Michael Matheson: We have had engagement with the UK Government on that matter. The challenge is that we were not consulted when the UK Government announced its programme. It designed the programme in a way that is not particularly useful for rural Scotland. The idea is to use public infrastructure as hubs and, in our more rural communities, that does not work. Had the UK Government engaged earlier, we could have fed that information in and that would have helped to design a better programme that would have reflected the needs of rural Scotland.

Notwithstanding that, we are working with the UK Government but we have not got to the point at which we have finalised the amount that will be allocated to Scotland from the £200 million. We need to get to that point so that we can have clarity on that.

I would certainly welcome the committee's support in getting the UK Government to give clarity on that. However, as things stand, I cannot give a figure because it has not been finalised, partly because the programme is not designed to fit with rural Scotland.

Maureen Watt: I take it that that money is separate from the contribution that we would expect from the UK Government for the R100 project. Do we know how much we can expect?

Michael Matheson: The R100 programme is a £600 million project that we are taking forward. The UK Government's contribution to the R100 programme is £20.99 million, or about 3 per cent of the overall budget.

Maureen Watt: That is despite the UK Government being responsible for broadband and digital connectivity.

Michael Matheson: Those are wholly reserved to the UK Government. We stepped in because of the lack of a strategy to provide the right type of digital connectivity in Scotland. We are using Scottish Government money in an area that is wholly reserved to the UK Government. It is disappointing that the United Kingdom has allocated only around £21 million to the R100 programme.

Maureen Watt: Can we expect any more from the UK Government?

Michael Matheson: We will certainly continue to press it to make a greater contribution. I would welcome the committee's support in pursuing the UK Government on that. It feels wholly unacceptable that we have had to step in with such an ambitious programme because of the lack of progress in providing the right kind of digital connectivity, and the UK Government making what

I think is a rather pathetic investment in digital infrastructure in Scotland.

The Convener: I have a few questions for you, cabinet secretary. As I understand it, the next phase of R100 will be awarded in three geographical lots. That was to happen in February but it has now been delayed until the summer. How much of the £28.2 million that is allocated in the budget will be allocated to each of the geographical lots and what are those geographical lots?

Michael Matheson: The three lots are north, central and south. The overall R100 programme should provide us with broadband connectivity to in excess of 170,000 premises. The largest chunk of that will be in the north, the second-largest will be in the south, and the third will be the in central lot. The procurement programme has been broken into those three lots for the industry.

If it would be helpful, I will give you the figures for each of the three lots. There are around 90,000 premises in the northern lot, around 54,000 premises in the central lot, and around 27,000 premises in the southern lot.

Members may wonder why the budget allocation to the central lot is lower than that for the southern lot. That is largely because the engineering that is required in those rural areas is much more costly.

The Convener: I am sorry, but did you give us the budget allocations for each area?

Michael Matheson: I will give the budget allocations next. The allocation is within the £600 million budget. The allocations are £384 million for the northern lot, £83 million for the central lot, and £133 million for the southern lot. Because we are still in the procurement phase and payment is made on a retrospective basis, the budget provision will largely fall into the next financial year. Therefore, it will start to become apparent in the 2020-21 budget.

The Convener: So you are saying that you will have to find around £530 million over the next two years to deliver the programme by 2021. Is that right? Is the aim to deliver it by 2021?

Michael Matheson: The aim is still to try to deliver it within 2021—

The Convener: Is the aim to try to deliver it or to deliver it?

Michael Matheson: To deliver it. I am conscious that, when we undertake challenging programmes, particularly in very remote areas, issues can arise from that, but that is certainly the target for us at the present time. We are having a dialogue with the industry about what some of those challenges could look like and how it would manage some of those challenges within that particular timeframe.

The Convener: You split the lots into northern, central and southern lots. Will they all be actioned at the same time, or will there be a phased approach?

Michael Matheson: They are all out to procurement at the same time—

The Convener: So all the awards will be at the same time.

Michael Matheson: Yes—all the awards will be at the same time. Different companies might get different lots, but one company could get all three lots. The programme was broken down into those lots to ensure that there was greater competition. Given the competition that there is, that appears to have worked.

The Convener: I have heard the words “try” and “aim”. Are you confident that you will deliver the programme by 2021?

Michael Matheson: I am confident on the basis that, from what we are hearing from the industry, that is possible. I am mindful of the technological and engineering challenges that we face, but that is certainly still the target.

The Convener: That sounds fairly caveated. Will you confirm when the contracts will be awarded? That was to happen in February, was it not? Early summer is now being talked about. I always get confused. Summer is a huge period.

Stewart Stevenson: Not in Scotland.

The Convener: It is in my part of Scotland; the sun always shines there. When do you think the contracts will be awarded?

Michael Matheson: Let me put things in context. Some of the time issues have been the result of the competitive dialogue that has taken place with the bidders, who have asked for additional time to work through some of the issues. I am conscious that, the more reasonable time we give them, the greater certainty and assurance we can have about their ability to deliver some of the programme. I am content to allow them to have additional time to carry out extra work on information that they require to make decisions. I would expect us to have our contracts agreed by our summer recess.

The Convener: I guess that summer in the Highlands starts earlier than our recess does.

Peter Chapman: I want to follow up a wee bit more on what has been said. Is not it the case that we are behind on the project and should be further on than we are? I am concerned that we are not going to reach R100 completion by the end of 2021. The convener has already pushed you on that, cabinet secretary. I feel that we are slipping behind and that we will not achieve the target.

Michael Matheson: I will tell you what the case is: it is that we have had to pick up something that the United Kingdom Government should be doing. Its failure to do it has resulted in our having to step into the space to do it. We are trying to do it, as members can see from the DSSB programme and the Audit Scotland report. It is a fact that we have significantly closed down the gap between us and the rest of the UK.

12:15

I am asked about extra funding for ferries or other investment in transport, but the reality is that a sizeable amount of Scottish Government money is having to cover something that the UK Government has not taken forward. That is exactly what the DSSB and R100 programmes have had to do. There are challenges with the timeframe, but the matter should have been dealt with at a much more effective strategic level by the UK Government. Its failure to do that has resulted in our having to step in to fill in for it.

The Convener: The final question is from Jamie Greene.

Jamie Greene: I would like to keep this question pragmatic. Given that there is a UK-wide universal service obligation, which comes with associated contracts and tenders, how will the R100 contracts that you award, which will have different parameters, sit alongside roll-out of the USO? Are there any overlaps or duplication of work, or has it been separated out?

Michael Matheson: Robbie McGhee will cover the technical aspects.

Robbie McGhee: Right from the start, we have engaged with Ofcom, and the intention has been to marry the two processes as far as possible. We will certainly, as a bare minimum, share as much information as we can, as it becomes available, about the reach of R100 procurement. There is an opportunity for us to work together to try to tie delivery of the USO with delivery of aligned interventions that we might need to make to reach premises that will not be reached by the main procurement. There must be an opportunity to work together through the two initiatives potentially focusing on the same premises. We have already had good discussions with Ofcom about the practicalities of how we will manage that, now that there is a bit more certainty about the universal service provision. We will continue to have conversations with Ofcom, which we hope will have a successful conclusion.

Jamie Greene: I dare say that, given that you already have contracts in place, or have put out a tender, the wording has already been given substantial thought. You have said that there might be a situation in which two competing companies are working on the same premises, with one delivering broadband at one speed and the other trying to deliver it at another? That does not make a huge amount of sense. Can you give more detail on how that will be joined up?

Robbie McGhee: We have agreed that as soon as we have contracts in place at premises level, we will share with Ofcom which premises will get the minimum 30Mbps, which will at a stroke rule them out as ineligible for the universal service obligation. That information sharing could be most fruitful in respect of premises that are not covered by the initial procurement, which gives the opportunity for joint work. To go back to my earlier point, I note that we could marry up the USO approach with our aligned interventions.

The practicalities are being worked through. We have already given Ofcom the undertaking that as soon as the contracts are signed, sharing that forward view on coverage will be done on an open-book basis, which will influence delivery of the USO and its scope.

The Convener: I thank the cabinet secretary and his team for attending the meeting, which has run on a wee bit. I ask the witnesses to leave quietly while we continue our meeting.

Agenda item 3 is European Union (Withdrawal) Act 2018 notifications. There are two notifications, one on agriculture—

Maureen Watt: While the officials and cabinet secretary are leaving, could I point out that, as well as our having asked him to do things and get back to us, he asked us whether we would write to the UK Government with regard to the derisory £20.99 million—3 per cent—for the R100 programme? Could the committee please undertake to write to the UK Government to ask it why the amount that it is contributing is so low, given that the UK Government is responsible for digital connectivity?

The Convener: I am not sure that it is the job of the committee to lobby people outwith the Scottish Parliament. That is a matter that we need to discuss as a committee.

Maureen Watt: I am happy to discuss the matter now and, if necessary, to put it to a vote.

Mike Rumbles: It is not for the Scottish Government to instruct the committee on what it needs to do—

Maureen Watt: I did not say that the Scottish Government instructed the committee. I said that we were asked, not instructed—

Mike Rumbles: I am not inclined to take instructions from Government ministers—

The Convener: Hold on. If we are going to discuss this now, I ask members to do so reasonably and to make their points without talking over others. I apologise, but I find it extremely difficult to hear three conversations at once.

John Finnie: Mr Rumbles is entirely right to say that it is not for the committee to take direction, particularly in circumstances such as this, in which we are taking evidence. Nonetheless, we are scrutinising a budget and we have heard a compelling case about a deficiency in an area that is reserved. I have to say that it is a source of great frustration to me that significant sums of money, which could be buying ferries or building schools, are being used for R100. It is entirely reasonable to ask the UK Government for an update on the position, particularly in relation to the overlap of schemes.

Richard Lyle: We heard this morning that £600 million will be spent. It continues to be the UK Government that is responsible for digital connectivity in Scotland, not the Scottish Government. I am sure that UK committees sometimes asks us things. This committee should ask the UK Government why the amount of money that is being given to the Scottish Government to fulfil a UK responsibility is so miserly.

Jamie Greene: We generally reflect on evidence and discuss it in private. If we are having the discussion in public, however, so be it.

The decision of the Scottish Government to implement the R100 project, which is entirely within its rights, is a political decision. There is already a UK-wide universal services obligation. It could be argued that its parameters are unacceptable to the Scottish Government; it has made its views clear on that. The money that is being referred to in our budget scrutiny is for the R100 project and does not include the money that will be spent on the UK-wide USO, which is additional money that is to be rolled out across the UK. In the context of the budget, the two matters are not related.

The committee should not be writing to anyone at the wish of a minister. It is for the committee to choose to do so. Conflating the two issues is unhelpful, and I recommend that we do not write on the matter as part of our budget scrutiny.

Mike Rumbles: I am disappointed that the committee is discussing this now, when we do not normally do things this way. We must remember that our job is to scrutinise the Scottish budget. That is what we are here to do, and that is what the agenda item is about. I would prefer that we concentrate on our job and not on something else. It would be totally wrong to proceed as has been suggested.

I suggest that we get back to the agenda.

Stewart Stevenson: I have a few wee points to make. First, there is plenty of precedent for our communicating with the UK Government. We had Michael Gove in front of the committee. Good inter-Government working is something that we would all wish to see.

Secondly, the USO is not money from Government. It is a universal service obligation that applies to network providers. It is about providers spending their money: it is not about Government money. In relation to an allocation of money that is in the Scottish Government's budget proposals, it is proper that we inquire why it is having to spend the money. Our question to the UK Government would be a simple one—a one-sentence question. We would just ask it to provide the justification for its current proposed allocation to the programme. That matter interacts with the Scottish budget, and that is the context in which we should ask the question.

As Mr Rumbles properly suggested, we are bouncing on the edges of this, but it is a matter that affects the Scottish budget; that is the basis on which I suggest we write. Like you, convener, I am anxious to make progress on other agenda items.

Peter Chapman: I, too, am very disappointed that we have gone down this route. I do not think that asking such questions is the job of the committee. My understanding is that the UK Government has already spent much more per head of population in Scotland than it has in England and Wales on digital connectivity. I rest my case there.

Maureen Watt: I would like to press my proposal, convener.

The Convener: That might be entirely right, but perhaps before you do so, you might listen to what I think might be a way forward.

It is very difficult, but the committee always takes the position of leaving politics at the door and ensuring that we consider matters as they are. I therefore think that it would be entirely appropriate for the committee to write to the UK Government to ask why it has contributed that level of funding and what the justification is for that. Once we have that, it would then be entirely right for the committee to consider the answer and to discuss whether we want to take any action.

However, I do not think that it would be appropriate for the committee to charge in at this stage and make comments on information that we have heard. We need to have both sides of the story before we go forward. I therefore suggest that we write to the UK Government to ask why it contributed that amount and its reasons for that, and that we come back to the issue at a later stage. Is that agreed?

Members *indicated agreement.*

The Convener: Thank you.

European Union (Withdrawal) Act 2018

Agriculture (Transfer of Functions) (EU Exit) Regulations 2019

Food and Drink, Veterinary Medicines and Residues (Amendment etc) (EU Exit) Regulations 2019

12:26

The Convener: Item 3 is consideration of consent notifications for two UK statutory instruments: one on agriculture and one on food and drink, veterinary medicines and residues. The instruments are being laid in the UK Parliament under the European Union (Withdrawal) Act 2018. Both SIs are categorised as category B because the transition from an EU framework to a UK framework would be a major and significant development. Do members have any comments?

Richard Lyle: There is one thing that I would like to know, although maybe no one can give me an answer. We will likely agree to the consent notifications for the SIs, but what happens if Brexit does not take place when it is supposed to and is kicked down the road for a number of months? Would our agreement to the SIs remain, or would we have to revisit the matter? It is a logical question.

The Convener: I do not think that we can say, at this point. The question is somewhat hypothetical.

Richard Lyle: I got it on the record anyway. Thank you.

Stewart Stevenson: I will put on the record that I think that the committee should be kept updated by the Scottish Government on the regulatory powers that will be transferred by the Agriculture (Transfer of Functions) (EU Exit) Regulations 2019.

The Convener: Are we therefore agreed that we will write to the Scottish Government to confirm that we are content for consent to be given to the two SIs, and to request a response from the Scottish Government on the wider policy matters that are identified in the accompanying papers?

Members *indicated agreement.*

The Convener: The committee will now move into private session.

12:28

Meeting continued in private until 12:42.

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