



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Rural Economy and Connectivity Committee

**Wednesday 29 January 2020**

**Session 5**



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**Wednesday 29 January 2020**

**CONTENTS**

	<b>Col.</b>
<b>CONSTRUCTION AND PROCUREMENT OF FERRY VESSELS.....</b>	<b>1</b>
<b>DIGITAL CONNECTIVITY .....</b>	<b>41</b>
<b>DIRECT PAYMENTS TO FARMERS (LEGISLATIVE CONTINUITY) BILL 2020.....</b>	<b>69</b>

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**RURAL ECONOMY AND CONNECTIVITY COMMITTEE**

**4<sup>th</sup> Meeting 2020, Session 5**

**CONVENER**

\*Edward Mountain (Highlands and Islands) (Con)

**DEPUTY CONVENER**

\*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

**COMMITTEE MEMBERS**

\*Peter Chapman (North East Scotland) (Con)

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

\*Jamie Greene (West Scotland) (Con)

\*Emma Harper (South Scotland) (SNP)

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

\*Angus MacDonald (Falkirk East) (SNP)

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

\*Colin Smyth (South Scotland) (Lab)

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

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Dr Alf Baird

Claire Blake (Scottish Government)

Angus Campbell (CalMac Community Board)

Eoin MacNeil (CalMac Community Board)

Robbie McGhee (Scottish Government)

Stuart McMillan (Greenock and Inverclyde) (SNP)

Roy Pedersen (Pedersen Consulting)

Councillor Uisdean Robertson (Comhairle nan Eilean Siar)

Paul Wheelhouse (Minister for Energy, Connectivity and the Islands)

**CLERK TO THE COMMITTEE**

Steve Farrell

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



# Scottish Parliament

## Rural Economy and Connectivity Committee

Wednesday 29 January 2020

*[The Convener opened the meeting at 09:11]*

### Construction and Procurement of Ferry Vessels

**The Convener (Edward Mountain):** Good morning and welcome to the Rural Economy and Connectivity Committee's fourth meeting in 2020. I ask everyone to make sure that their mobile phones are on silent. I welcome to the meeting Stuart McMillan, who is attending for agenda item 1. I apologise for the slight delay in starting the meeting, which was down to the committee having some administrative requirements to meet.

The first agenda item is the continuation of our inquiry into the construction and procurement of ferry vessels in Scotland, in relation to which no members have previously declared an interest, and I assume that that remains the case.

This is the committee's second evidence session in the inquiry. Today, we will take evidence from ferries experts, community groups and local authorities. I welcome to the meeting Dr Alf Baird, former professor of maritime business at Edinburgh Napier University; Roy Pedersen, author and consultant, from Pedersen Consulting; Angus Campbell, chair, and Eoin MacNeil, member, of the CalMac community board; and Councillor Uisdean Robertson, chair of Western Isles Council's transportation and infrastructure committee.

Before we move to questions, I remind you that you do not need to touch the buttons in front of you when you are called to speak; the microphones will be turned on for you. Members will probably put questions to you directly, but if you want to come in, just catch my eye and I will bring you in. If a member poses a question and you all look away at the same time, the last person to look away will be the first person to answer the question.

On that basis, and knowing that no one will shy away from answering a question in the first place, we will move to the first question, which is from John Finnie.

**John Finnie (Highlands and Islands) (Green):** Good morning, and thank you very much indeed for your submissions.

I will begin with a few questions for the CalMac community board, the first of which is for Councillor Robertson. Are you in a position to outline to the committee what impact the delay in the delivery of the two ferry vessels has had on island communities?

**Councillor Uisdean Robertson (Comhairle nan Eilean Siar):** Our concern is that, when you start moving vessels around, that has an impact on the whole west coast community to a degree and, as a manager at CalMac once said to me, "All we do is move the row."

Basically, our concern is about the delay. We should have had the two new ferries in 2018, and we should probably have been building an Islay ferry at the moment. The impact of the delay on our communities has been quite bad; it has been particularly bad on my neighbour Eoin MacNeil's community in Barra, where they have probably had five episodes of being without a ferry for upwards of five days. That is a serious issue, and it is not only the economy of Barra that suffers. The delays in getting food supplies into shops mean that products are at their sell-by date; there are also issues with medical supplies and so on. In the summer, we have major constraints on some of the routes and ferries are full, and they are now filling up on shoulder periods.

The delay is a major concern for us going forward.

09:15

**John Finnie:** There will always be difficulties, as there is with any system. Will you outline the extent of the impact of the failure to deliver the two vessels, which you said should have been delivered in 2018? Has it compounded matters?

**Councillor Robertson:** It has compounded matters for our particular area, which is covered by the Little Minch services. The requirement was based on the figures that were looked at for 2018, which showed that the biggest demand was on the two routes into Arran and the Little Minch services. Those were predicted figures for 2018, but the problem now is that we are in 2020 and it will probably be 2022 or later before we get the ferries. On an island where people have invested heavily in tourism, the reality is that we are finding in the summertime that hotel and other accommodation is not being taken up because of ferries being full, particularly over the five months of the summer.

**John Finnie:** This question is for Mr MacNeil and Mr Campbell. How do CalMac Ferries, Caledonian Maritime Assets Ltd and Transport Scotland gather island communities' views on the ferry service and vessel design?

**The Convener:** It would also be interesting to hear from those two witnesses on the first question that John Finnie asked, because they might be able to give the views of other communities.

**Eoin MacNeil (CalMac Community Board):** I can give you a view from my island of Barra. Uisdean Robertson is right—the impact is incredible. As he said, there have been five occasions on which we have not had a ferry for five days. I came out on the ferry last Friday and we have not had a ferry since then. At this time of year, the stores and the shops are empty and the medical supplies are drying up—those are not things to kid on about.

The biggest impact is not just commercial: Barratlantic Ltd could take all our shellfish out, but if it cannot get out, the shopping cannot get back in. That has a huge impact on the island community.

**Angus Campbell (CalMac Community Board):** To follow up on that, the impact of ferries not sailing extends to all parts of life, from the lifeline services right down to people's decisions about whether they can or will stay on islands. There is a lack of confidence, because the most recent ferries plan has clearly not worked—it has not delivered. People are questioning what will happen next as regards the delivery of ferries. I have a figure for Arran: the community there reckon that they will have lost about £20 million out of their economy by the time the completed ferry comes into service.

There is a fear among communities that it is less likely that there will be investment in ferries in the future because of the outcome of the current exercise, which has been so costly.

You asked about how communities fed into the process. There is a lot of community fatigue when it comes to responding to consultations from Transport Scotland in particular on what services we should have and how they should be shaped. As a community board, we hear time and time again that people do not feel that there is a purpose in responding, because things do not change. The type of ferry and the type of service that have been put in place are maybe not what communities are looking for or what serves them best.

The process on the two new ferries has just heightened that feeling of wondering where the ferry service is going. We all know that we need a major investment in six to eight vessels over the next number of years, but there needs to be direct community feed-in to the process in a much clearer and more open way and in a way that actually has an impact. That view comes from

discussions that we have had right across the network, from the north to the south.

**John Finnie:** Community engagement is not just about asking someone for their views; it has to be meaningful engagement. What impact did community engagement have on the Stornoway to Ullapool route, for example? What could we learn from that?

**Angus Campbell:** As I have stated previously, I remember the first consultation on the Stornoway to Ullapool route, for which the Loch Seaforth was the chosen replacement. I think that everybody at that public meeting wanted two ferries to provide a more regular crossing. Although the option of two ferries came up on the board, the next 37 slides were all about one ferry. There was no mention of the fact that a huge investment in infrastructure would be needed to make that ferry work.

Most people would like the money to be used in the best possible way to provide more frequent services and to allow some ambition in the programme to enable the island economies to grow and have some capacity to build, not just for lifeline services such as health services, but for the economy and employment. That is all part of the circle of making the islands a good place for people to choose to live and keeping the demographics right.

**John Finnie:** Does the fact that residents do not feel that their views have been taken on board create a challenge for you?

**Angus Campbell:** Absolutely. As a community board, we are a fairly new concept, but we have sometimes had the same frustration in trying to get things done—for instance, we have spent two years talking about equalising the fare for off-island school transport to enable children to do extracurricular activities. Although two ministers have agreed to that, we cannot get it through the system. It costs two and a half times what a camper van pays to take children off to do art or music.

That is the sort of frustration that we feel as a community board about not getting our views into the system and not getting the outputs that we think that we should get at no extra cost to the taxpayer. In fact, if the community voice was listened to a bit more, you would save a lot more money.

**The Convener:** John Finnie might have another question, but there are a couple of other members with questions on this topic, so I will come back to him.

**Jamie Greene (West Scotland) (Con):** Good morning, gentlemen. The purpose of the inquiry is to look at the current and future challenges and opportunities in how we procure vessels to meet

the needs of the island communities that you have discussed. Part of that involves looking at the building of the two ferries that are delayed. I am particularly interested in what the communities asked for versus what is being delivered for them.

Colleagues will ask questions about the future relationship that you would like to have with Transport Scotland, so I ask you to park your opinions on what should happen next for the time being. I would like to go back in time a little and ask about the consultation that you were involved in, what you asked of CalMac, CMAL, the Scottish Government and Transport Scotland and whether the two proposed vessels were what you asked for.

**The Convener:** Who would like to start on that? Off you go, Councillor Robertson.

**Councillor Robertson:** I was intimately involved in the issue of the 802. There was absolutely no consultation at all with the stakeholders or the community with reference to 802. We were told, "This is what you're getting." There was no discussion with us at all. I clearly remember the engagement that we had with CMAL. When the chief officer and the director of vessels came to the community—they were always willing to come to the community to engage with us on the vessels—we were given presentations. The vessel looked very nice on the screen. You could move around the screen and see where the car deck, the petty area, the canteens and the lift were. Therefore, I assumed that every nut and bolt was sorted and that we knew exactly where everything was going.

We visited the yard in 2018 when delays were starting to happen. When we were taken around the yard, we were told that there had been a lack of space at the start and that there had been an extension—there was a new shed. I left that meeting in April 2018 with the feeling that although there was going to be a year's delay, things were moving on.

However, there was no engagement at all with our community on the vessel design at the start. We would clearly have preferred vessels like those that we currently have, such as the Hebrides, which operates very well in our waters. We argued, "Why spend £50 million upgrading three ports and building this expensive ferry when you could probably have done less upgrading of ports and at the same time built maybe four ferries like the Hebrides, which is a proven vessel?"

**Angus Campbell:** Speaking on behalf of the community board, we have been in existence for only two years, so we were not involved in that. However, I can pass on what we hear from the community. It is a similar story of not having input into, for example, the size of the car deck or the

number of passengers and how that will work, what services will be provided on board and how the freight element will work. As a community board, we have been saying that there should be flexibility and even a common design that could be adapted for different islands; for example, Islay has a real need to solve a haulage issue, and there are ways of doing that within the same hull.

It is a question of having engagement in the early part of the process so that the problems can be solved, rather than of having the ship delivered and then having to say that it does not do everything that we want, which is quite common.

**Jamie Greene:** The feedback that I am getting is that island communities are being told, "This is what you're getting—make use of it," rather than getting what works for them. Do any of the other panellists have a view on whether that was the right approach to take? Would we be in the situation that we are in if the Government had said, "Tell us what you need us to build and we will build it for you"? Would such a vessel have been delivered already?

**Eoin MacNeil:** For the Isle of Lewis vessel that serves us in Barra, there was no consultation, but she serves us well. She is quite a big vessel for us, but we still manage to fill her in the summer—the islands are getting busier.

However, it is a pity that there is not more consultation, because if there is one thing that the islanders know, it is whether a vessel is fit for purpose. Of the two vessels that we have at the moment as spare boats, the Isle of Arran is not fit for the Western Isles, as it is a six-hour sail in the Minch through heavy seas. She does not last well in that, and there are frequent disruptions in the service. At the moment, the community is questioning why two of CalMac's largest vessels—the Isle of Lewis and the Clansman—are in dry dock at the same time, because that removes any kind of big-ship resilience for the longest routes, whether to Uist, Barra or further north.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** I have a small question that, for the moment, is just for the community representatives, although I suspect that our academics will comment on what I am about to ask when we come to them later.

I would like to know what your views are on the tension between what we require of a vessel in winter, which would seem to be resilience and the ability to weather severe storms, and the primary requirement in summer, which is probably a capacity issue. Am I correct in my characterisation of summer and winter as having different priorities in the communities' thinking? To what extent do you think that any design of vessel that we put in

that will operate in both those seasons will always have to compromise in that respect?

**Angus Campbell:** It should be noted that even in the middle of summer, given the ageing fleet, there is a large number of breakdowns, which has an impact on the tourists.

**Stewart Stevenson:** Yes. Do forgive me—as a layperson, I sometimes simplify things beyond what is reasonable

**Angus Campbell:** From our discussions and our point of view, the answer to your question is that having the type of ship that can cross safely and be resilient in all weathers but which has the ability to provide extra frequency in the busier times is probably a better outcome than building a large ship that has more problems in bad weather. For instance, a very high ship will be affected more by the wind, which can result in more winter crossings being cancelled, whereas using two smaller ships that are more resilient in the bad weather would give us flexibility and provide the extra capacity that we need in the summer. That is the sort of answer that the communities have been looking for.

**Stewart Stevenson:** Sorry, but can you point us to any numbers? I understand the windage issue, but are there any numbers that we can look at that show that smaller vessels are more capable of dealing with extremes of weather? In the Pentland Firth, for example, the catamaran service is off more often and that type of vessel has a lower windage than a standard vessel. I do not hesitate to say that that is open to challenge—it is just my view.

**Angus Campbell:** I make it clear that I used to serve on ships, but I am not a ship designer. Eoin MacNeil mentioned that island people have a good appreciation of what is a good sea ship and what is not. The feeling is that too small a ship is not going to work for long trips in heavy seas but that there are also issues with bigger vessels. There is probably an ideal size of ship that would work as long as we had the flexibility to increase the capacity when necessary.

09:30

**Peter Chapman (North East Scotland) (Con):** I note your frustration that people from CalMac or CMAL come to speak to you and ask your opinion as a community, but that it appears that once they have heard your opinion, they go away and ignore it. Have you any idea why that is the case? Why do they consult you and then not listen to what you say?

**Angus Campbell:** There is a third leg to that, which is Transport Scotland. The three work together in that process. I often feel that, because

we are dealing with specialist items and ships, there is an attitude of, “We know best. The public can’t have that sort of knowledge.” Therefore, our comments are perhaps not given as much validity as they should be.

We are not designing ships. What we are saying is that there are needs that should be met; there are ways of configuring ships; and there are services that are necessary. What matters is how we work together to meet those needs. The joint approach of involving the community from the very early stages and right through the discussions would reap great benefits.

**The Convener:** That leads almost perfectly on to the next question.

**Richard Lyle (Uddingston and Bellshill) (SNP):** There are different islands, different ports, different sizes, and there is a science to what a particular island route needs. We would all agree that ferries should be built to match island routes and to accommodate vehicle and passenger demand and the ports that they will serve. You have all suggested that communities are frustrated by being consulted but not really being listened to. How would you like to see Transport Scotland, CMAL and CalMac involve island communities in their decision making about the ferries that are required for a route?

**Eoin MacNeil:** A big step would be for them to come to the islands and discuss those matters, perhaps on a day in winter, or a day when they can get a feel for the problems that the community has. The boats that we have are either too big or too small; they either fit the pier or they do not.

We never really know where we are in the pecking order for getting a new vessel. The community cannot see the light at the end of the tunnel with the two new vessels. It will take two or three years to build them. Where is the next one for Uist going to come from? Where is the next one for Barra going to come from? We need a higher level of involvement. The CalMac community board is a good step towards that and it brings us a wee bit closer to CalMac, but CalMac has a contract, and, therefore, we should also have closer links to the Scottish Government.

**Richard Lyle:** Are you suggesting that somebody from Glasgow or Edinburgh or wherever comes to your island and does not know, or does not bring along someone from the company who knows, what is happening in that area? You are suggesting that somebody who has no clue what your island requires turns up to tell you what you need.

**Eoin MacNeil:** I do not necessarily mean that they tell us what we need. They want to gain an understanding, but what we find is that they parachute in and then disappear again pretty



quickly. We have them only for a day, and that is not a long time.

**Richard Lyle:** It is astounding that someone who does not know what you need turns up to ask you and then does not listen to you.

**Eoin MacNeil:** We have been faced before with senior officers pointing out that they are working to a contract. CalMac works to a contract. Maybe we need to chap on the door of the Scottish Government itself. We have been trying to develop that.

**Richard Lyle:** I have a couple more questions, but someone else might want to come in on this issue.

**The Convener:** I will ask a supplementary question that is relevant to the point that Richard Lyle made.

I am sure that people who have pored through all the documents will have seen the letter from Transport Scotland on 20 August 2015. On the approval of the tender advice that was given to ministers, paragraph 7 makes clear that CMAL and CalMac had still not decided on what the right thing was as far as the ship design was concerned, and that CalMac was arguing with CMAL about the design.

As Richard Lyle said, we have Transport Scotland ferries unit, CMAL and CalMac all feeding in to make a decision on the procurement of a boat that will be run by one, but not all, of them. Is that an ideal system, or should the body that will actually run the boat be more directly involved in the procurement, rather than going through other Government agencies? Angus Campbell, do you want to come in on that?

**Angus Campbell:** A look at how that three-legged system works is definitely long overdue. They come at it from different angles and, sometimes, you end up with a compromise that is the worst of all the worlds. There should be a mechanism for having some sort of project team that includes community involvement, so that we can work a new ferry proposal through from start to finish with the community view in the middle of that mix. There are conflicting interests at the moment in terms of what the various bodies bring to the table.

**The Convener:** I would like to quickly bring in Roy Pedersen and Alf Baird on that question. We have three legs, all designing something that only one of them will operate. Is that a good system?

**Roy Pedersen (Pedersen Consulting):** No, I do not think that it is a particularly good system. However, the difficulty is that, since CMAL came in because of the European tendering rules, there has been a long tradition of that within what we might call the CalMac system. The ratio between

passenger and car capacity in the CalMac fleet is high and, in almost all cases, the passenger capacity is never reached. On the Little Minch service, for example, the MV Hebrides has a passenger capacity of about 550, but no sailing on that route has ever carried more than 312 passengers—and the time that it carried that number was exceptional. That means that the ship is more expensive to build and run, and has to carry a bigger crew, than is necessary, and that is the case throughout the fleet.

The issue goes back at least two decades, and possibly more. The current system simply perpetuates that bad design, and the new ships take it to the extreme.

**The Convener:** Alf Baird, do you want to comment on that, briefly?

**Dr Alf Baird:** All I can say is that most of my research is international. I have studied ferry markets in Asia, the Middle East, North America, South America, Europe and so on. What is clear here, and what I have found globally, is that public sector procurement usually ends up in extra expense, extra cost, bureaucracy and too many organisations. The private sector, by contrast, simply goes ahead and builds a ship and knows exactly what it wants.

Meeting the needs of users is simple. They need three or four key elements: frequency, capacity, price and reliability. Reliability is built into frequency, and frequency depends on ships; that is, on how many ships you have. All the major routes should be served by two or more vessels, including Stornoway. That is right, as people have said, and that is the case globally. Some routes have four or five ships; Norway even has six in some cases. Having more ships means higher frequency, which means more capacity, and that can all be done relatively cheaply if the ships are specified correctly. However, that is where the public sector gets things wrong; it specifies the ships incorrectly. It does not specify the ships as the market would do; it specifies them according to the biases and opinions of the people who specify the ships. In this case, that comes from within CalMac. That specification then goes into the funding mechanism through Transport Scotland and into the delivery mechanism through CMAL. In global terms, all that bureaucracy is unnecessary.

I have been working with an operator in the Philippines who is replacing 30 ferries. He wanted to know what the optimal vessels would be so that I could do ship cost modelling and so on. Eventually he decided. Vessel number 15 was delivered this month and the total of 30 vessels will be delivered quite soon. That will all have been done within 10 years.

Norway is replacing 200 vessels every 20 years—15 a year. We struggle to replace five vessels every 10 years—and they are all wrong and wrongly procured. That is the difficulty.

**The Convener:** I am sure that we will come back to you, Mr Baird.

**Richard Lyle:** Basically, size is a science. I have been on committee trips where I have tried to get my car on the ferry, but it was overloaded so I could not get it on and had to park it somewhere else. Islanders complain—quite rightly—if they cannot get off the island in time because they have not pre-booked. I understand that it is a science. We have to listen to the local community and to the local captains. It should not be someone from Edinburgh who comes in and tells them what they need.

We have heard it argued that a decision was taken to continue with the existing ferry designs, rather than scrapping the partially completed vessels and starting again, possibly with a different design specification, in order to deliver the completed vessels within as short a timeframe as possible. Do you have any comments on that suggestion from the perspective of the island communities that are currently waiting for the vessels?

**The Convener:** I want to drill down into the islanders' point of view first, as that was the question. We will come to Roy Pedersen later.

**Angus Campbell:** The timetable and seeing the ships completed is very important to the islands—albeit the ships that come out the other end might not be ideal. We still have a concern about the type of ship that will emerge from the yard after the process, how robust it will be and what the situation will be if problems with the build emerge when the ship is in operation. We are not in a position to say that it would be better to scrap everything and start again. We do not have the expertise for that—perhaps Mr Baird and Mr Pedersen do.

If we were to go back to the bones again, we would be looking at building ships that are more closely aligned with the community's need. However, if the alternative means getting ships out the other end quicker, at least people would be glad to see ships come on the list as that would help with the capacity issues.

**Richard Lyle:** I have one more question. Several written submissions to the committee have argued that crews should be stationed on the islands, rather than living aboard ferries, and that such a change in policy, among others, would have important implications for the future design of ferries. At the end of the day, if the crew members are living on the ferry, it has to be big enough to accommodate them. What is your view on that

suggestion and what impact might it have on island communities? The ferry is part of the island and the island is part of the ferry.

**Eoin MacNeil:** That would be a great idea and most of our community would agree. Having the vessel situated on our island would make a big difference, because she would be leaving, rather than coming to collect us to take us off the island. Where I stay in Barra, we are very much a maritime community, with a merchant navy tradition. We have several captains who work for CalMac and many other individuals who work for CalMac in different roles. To have 30 or 40 crew living on the island would be a great boost to the economy. We would be very much in favour of that.

**Richard Lyle:** Their families would also live there.

**Eoin MacNeil:** Yes, and it would also increase the pressure to build more houses more quickly and to grow the islands and their economies. That would be a great step in the right direction.

09:45

**Jamie Greene:** In last week's session, we learned that the cost to complete the two current vessels will be more than the original contract value to build them from scratch, and the shipping yard's representatives were asked whether it might be more appropriate go back to the drawing board and redesign ships that meet the specifications of the island communities. What would be preferable to the island communities? Would you rather get a ship more quickly, even if it did not necessarily meet 100 per cent of your needs, or would you prefer to have a ship that will meet your needs for the next 20 years, but for which you might need to wait longer?

**The Convener:** Who would like to answer that? It is a difficult question.

**Jamie Greene:** That is the stark choice that is faced.

**Angus Campbell:** Well, is it?

**Jamie Greene:** Those are the options.

**Angus Campbell:** The extended time period to finish the ships is as long as it would take to build ships from scratch. Generally, communities that do not have expertise are keen for ships to come into the fleet, because the situation with relief vessels has been bad—it has affected every part of the network in different ways, at different times. My instinct is to say that island communities would rather have some ships there. However, that is my personal opinion, and thinking about what could be done in that timescale and with that amount of

money might bring a different answer from other people.

**The Convener:** The issue is made more difficult when we consider that, according to the tender document, the tender that was accepted was the most expensive one of the seven that were received.

**John Finnie:** I declare my membership of the RMT—National Union of Rail, Maritime and Transport Workers—parliamentary group.

I have a question for Roy Pedersen. Nothing in life is simple, and there are consequences of any decisions that are taken. In your written submission to the committee, you talked about design—Angus Campbell also alluded to that—and the cost of installing accommodation for crew on boats. It is not readily the case that jobs would transfer to island communities if there were no on-board accommodation.

Given that it is a fundamental work practice—people have spoken about the maritime connections between the islands, and about people living on the boats—are you aware whether there has been any meaningful engagement with trade unions regarding looking at alternative models? That should have been done in accordance with health and safety legislation anyway.

If there are two vessels, it may end up that there is still the same number of crew, only configured in a slightly different way. There is a great reticence in some quarters, and certainly on my part, to see any diminution in the number of jobs that are available to seafarers.

**Roy Pedersen:** I cannot speak about the links between trade unions and the management of CalMac, CMAL or others. However, as an example, the ship that operates on the Little Minch—that is the strait where services between Uig and Tarbert and Uig and Lochmaddy operate—has a crew of 34 people living on board. The ideal solution would be two ships that are not necessarily a lot smaller, but which are simpler and cheaper to operate, with crews of around 12 to 14 who would live ashore. When that is added up, there is not much difference in the number of personnel involved. If the crew were to live ashore in the community with their families and their kids were going to school, that would benefit both the community and the Scottish Government's islands plan for growing the population.

The other benefit of crews living ashore is that a ship's working hours can be extended, because people can work in shifts. That could mean that more people end up being employed. It could also mean a better service with more frequency. Much more capacity could be provided with two ships—especially for cars. It could also mean more

revenue for the operator, which would more than offset the extra cost of the crew.

It is not necessarily about reducing the person power that is required, but about doing it differently and more efficiently.

**John Finnie:** This may be slightly outwith your remit, but I take it that you would acknowledge that that represents a fundamental and substantive change in workplace terms and conditions.

**Roy Pedersen:** Sure.

**John Finnie:** You would presumably want maximum engagement on how to go ahead with that.

**Roy Pedersen:** Presumably so. Bear in mind that, for the smaller ships comprising more than half the CalMac fleet, the crews live ashore. That is common practice. It is also common practice for the Shetland Islands Council ferries, and indeed all over the world. That is the way that it is done in Norway, for example.

**Maureen Watt (Aberdeen South and North Kincardine) (SNP):** Following on from John Finnie's question, it was not always the case that the crew lived on the ship, was it? That has been the case only fairly recently. The crew used to be based on the islands or on the mainland.

**Roy Pedersen:** It has been traditional since the beginning of steam navigation for crews to live on board. A tradition is being continued—albeit an antiquated one. In the days when ships ran from Glasgow to Stornoway or up the west coast to Islay and all over the place, the crews had to live on board.

**Maureen Watt:** Yes—I get that.

**Roy Pedersen:** The round voyage could take a week. That tradition is being perpetuated, rather than the ferry being viewed as basically a bridge. That is what the ferry should be, and that is what ferries are regarded as in many countries—as part of the road system. The most efficient way to provide that is for the crews to live ashore, with their families. It is more family friendly to live ashore, for one thing, and it is more beneficial to the island communities. The terms and conditions and so on would obviously have to be negotiated and would have to be satisfactory, but I believe that the proposal could bring an improvement in working conditions for the personnel working on the ferries.

**Richard Lyle:** To carry on with that point, we should now take the opportunity to consider how we staff and manage ferries and how we grow island communities. I do not live on an island, but I get it. The kids will be able to see their dad or their mum every night.

**The Convener:** Mr Lyle, I encourage you to ask a question, rather than make a statement.

**Richard Lyle:** I am sorry, but I need to say this. I think we need to consider a new plan for how we develop our ferry services in Scotland. Would you agree?

**Roy Pederson:** I would totally agree.

**Richard Lyle:** Thank you.

**The Convener:** Thank you, Mr Lyle. Angus MacDonald has some questions next.

**Angus MacDonald (Falkirk East) (SNP):** I should have declared this at the start. I refer members to my entry in the register of interests, which says that I have a non-domestic property in the Western Isles.

I wish to explore the consultation a wee bit further. I direct these questions to Councillor Robertson and to Angus Campbell, given his previous role as leader of Western Isles Council.

We have heard from Councillor Robertson that

“There was absolutely no consultation”

regarding vessel 802. It is probably fair to say that Comhairle nan Eilean Siar and other local authorities served by CalMac play only a small part in the specification of new vessels and the planning of future services. If that is the case, it is disappointing.

I remember when the Suilven was purchased, about 40 years ago. It had already been built in Norway, and it was purchased on spec, but the Western Isles councillors visited Norway and were fully engaged in the process. I suppose that it is debatable, but most people would say that the Suilven was an ideal ferry for its run.

We know that you are still awaiting the final report of the Outer Hebrides Scottish transport appraisal guidance assessment. Will you provide the committee with an overview of the findings of the STAG assessment and the role that the two new ferries are due to play? What impact has the delay in their delivery had on the roll-out of those plans and, more generally, island economies and communities?

**Councillor Robertson:** The STAG appraisal is happening now. We have lost confidence in the system of consultation because, although we have had good engagement with CMAL, CalMac and Transport Scotland all along, the reality is that anything that we suggest as a requirement of the community generally does not get listened to. That has been the pattern and it is a frustration for us, which is why we feel that more cognisance of the views of islanders needs to be taken.

Currently, on the Little Minch services, we have a ferry—the Hebrides—that performs exceptionally

well. In the past month, during which the weather has been particularly bad, it has performed very well. Our requirement on that route is to retain the Hebrides, as well as to get the new ferry, whenever it arrives. We are also looking for two vessels on the Stornoway-Ullapool route, a new ferry on the route from Lochboisdale to Mallaig, and a replacement for the Barra route. Quite a lot of investment is required to provide the services that we need. Going forward, it will be a worry for us to see what will happen over the next few years with regard to provision. Our capacity is extremely constrained during the summer in particular, and, as Eoin MacNeil said, we see no light at the end of the tunnel as far as that is concerned.

Going back to the question about vessels 801 and 802 and whether they should be scrapped, I was alarmed at a recent meeting in Harris when a retired chief engineer said that if rust has set in and there is water ingress, they will never be right. If the ferries are completed and we get them on the routes, that will be a major concern for us.

**Angus MacDonald:** Of course. If there is a delay, it would mean that the yard would be idle for some time. I agree with you about the Hebrides—I am a regular user of it, and it is a hardy vessel that sails in most seas. It would be good to see it retained for some purpose in the Outer Hebrides.

The committee has heard calls previously and this morning for CMAL to adopt a different approach to ferry procurement, particularly relating to the size and design of new vessels. We will probably explore that issue later with Alf Baird and Roy Pederson, but are such calls supported by Comhairle nan Eilean Siar and other local authorities?

**Councillor Robertson:** Yes. We are in regular contact with Transport Scotland and we have engaged well with the minister, as he is always available to discuss those elements. However, I would argue with the advice that is being given by officials. As my colleagues have said, I do not think that there is enough knowledge about the requirements of island living, frankly, including among Caledonian MacBrayne’s senior management. I would make them all live on an island for six months of the winter; then they might appreciate what island living is all about. There is a lack of understanding that the ferries are lifeline services. As far as I can see, most of the people who are making the decisions are more concerned about catching a bus or a train than catching a ferry.

**Angus MacDonald:** Presumably, the purpose of the formation of the CalMac community board was to get all that information over to those people. If it has been in existence for two years, something is not happening properly.

**Councillor Robertson:** As a council, we engage with Angus Campbell, chair of the community board, at least every two months, so we have a regular dialogue with the community board and I think that we are coming at it from the same direction. Our dialogue with the community board has been particularly good and very regular.

**The Convener:** Angus Campbell, can you say what you do at the meetings and what you do with the information that you get from them?

10:00

**Angus Campbell:** The original purpose in the ferries contract was to have a body such as the community board to feed information from the communities into CalMac. We do that, but the formation of a new body does not solve the problem of what happens to that information. That is our frustration.

Due to the nature of how ferries operate and how the contract for the new build was constructed, the community board has also had to talk to parties other than CalMac; we have had to talk to Transport Scotland and CMAL. In some cases, infrastructure belongs to other bodies, whether that be local authorities or piers. The creation of the community board does not turn on the tap that will solve the problem.

We have had an effect on timetables and similar matters, and CalMac has listened to us on the provision of services on board ferries. However, the fundamental issue that is continually brought up by communities is resilience: the need for new ferries and a better and more frequent service. We would be failing if we were not to highlight that as the main ask from our communities.

**The Convener:** Can I clarify your point? You are saying that members of the community board are happy to talk about the services on the ferry—for example, whether it provides a food offering or tea and coffee—but not about the capacity on board.

**Angus Campbell:** The nature of the beast is that there is no simple method of taking information up the line, as was maybe envisaged when the community board was set up. We have had to adapt as we have gone along, with regard to where decision making is done on some of the wider issues. However, resilience is the fundamental issue that is coming back from the community.

I attended the presentation of the first meeting of the STAG forum at the comhairle, and the consultants clearly said that they were disappointed with the level of community feedback. They had come up against a wall of community fatigue. People were unwilling to feed

back into the STAG assessment because they felt that they had done it all before and that that had not resulted in any change to what was provided.

**The Convener:** The next questions are directed at Alf Baird and Roy Pedersen, who have been sitting quietly thinking about when they might come in—their time is now.

**Colin Smyth (South Scotland) (Lab):** We have touched on the issue already, but could Roy Pedersen and Alf Baird expand on why they believe that there are cheaper and better alternatives to the design of the new ferries that have been procured by CMAL? What are those alternatives?

**Roy Pedersen:** Both of us can talk about what we believe.

By way of illustrating the situation, I would ask why would one build a ship with a capacity of 1,000 passengers for routes—namely the Uig routes—on which there have never been more than 312 passengers on any sailing, with the average being half of that, and less than that in winter. You are building a ship that has a far higher specification, and which is far more expensive to build and operate, than is necessary.

This is the Rural Economy and Connectivity Committee, so you are interested in the economy and connectivity. Such a ship would be highly uneconomic and provide poor connectivity because it would serve two routes badly. If someone lives on Harris or North Uist, it is not possible for them to get to the Scottish mainland and back again on the same day, although that is a pretty fundamental requirement of any ferry service on a route that takes less than two hours. The timetable is different every day and people have to work out when they can get a ferry on a Wednesday or a Thursday, depending on when the ship is running.

If we were in a country where ferry services were run efficiently, there would be two vessels—at least two vessels, but let us say two—with one dedicated to Harris and the other dedicated to North Uist. The vessels and the crews would be based on those islands, and crewing would be around the 12 or 14 mark. That would give regularity and greater frequency. Shore-based crews give longer operating hours, because they can operate in shifts.

That would be a step change in the connectivity between the Western Isles and the rest of Scotland, and it could be done for a reasonable price. It would depend on where the ships were built, but it should be possible to do it for around the £25 million mark if the ships were built in the United Kingdom or Scotland, perhaps by Ferguson's. They would be simple ships, with a passenger capacity of, say, not more than 250,

which would be more than adequate to meet any requirement.

The difficulty on many CalMac services has been car space. Two ships would provide far greater vehicle capacity than the present arrangement or the 802. With the 802, massive investment in terminals will be required, because she will not fit the existing terminals. We are talking about not only the cost of completing the ship itself, because it will cost almost as much again to reconfigure the terminals with a bigger marshalling area, new linkspans and so on. Terminals need maintenance and renewal, but they would not need that extent of renewal if we went for a simpler type of ship.

My recommendation would be to scrap the 802. The 801 is another matter, but we should scrap the 802 and go for two simpler ships, which could be of a standard design that would suit most island routes.

I will stop there and hand over to Alf Baird.

**Dr Baird:** I do not have much to add to what Roy Pedersen has said, apart from agreeing that the ships appear to be overspecified in a number of respects. The ratio of passengers to cars is way too high compared with a normal Ropax ferry, which has four or five passengers per car space. The ratio on these vessels is 10:1, which is double that. As a result, the crew capacity requirements are very high.

The on-board living accommodation means that, for their whole lifetime, each ship will be carrying around a hotel, which inflates the power requirement, the cost requirement, the emissions—everything. The ships, which are heavy displacement ships to begin with, will also be carrying a lot of ballast, because they are not stable hulls. Each ship will be carrying a lot of water.

For its whole lifetime, each ship will be carrying around a hotel, hundreds of tonnes of seawater and double the number of seats needed. There is a lot of wasted capacity and spend. The bottom line is that those who are specifying the ships have no incentive to look for lower-cost ships. They are specifying what is, in effect, a kind of mini-cruise vessel to run a utilitarian shuttle ferry—basically, a bus.

Mr Lyle made a point about crews living on board ferries. We do not expect pilots to live on board aircraft, train drivers do not live on board trains and bus drivers do not live on board buses—and people should not live on short-distance shuttle ferries. That is an archaic practice. As Roy Pedersen said, when we changed from the old steamers to roll-on, roll-off ferries and from longer routes to shorter

connections, we should have thought seriously about working practices.

There could be a real transformation in the number of sea-going jobs here. In comparison with Norway, we are underdeveloped, in terms of the number of ferries. We should probably have at least 50 per cent more ferries than we have. That takes us back to the lack of capacity and the need for more than two vessels for every major route, with smaller vessels serving the smaller isles. We should not be serving smaller isles such as Coll, Tiree and Colonsay with major ships; that is like serving a small island with a jumbo jet. We have much more capacity than is needed on those routes. Those islands could have their own dedicated vessels.

In Orkney, where I live, it is normal practice for the crews to be positioned on the islands. Orkney Islands Council advertises every week for crew for different routes, and they have to be island based. That fits in with the need to provide emergency services out of normal hours and for different shift systems.

There is a need to transform the system to bring it into the modern age—it is not there yet. It is a case of not just replacing the fleet but upgrading and upsizing it to provide enough capacity to grow the economies that are being constrained because of the woeful lack of procurement capability.

**Colin Smyth:** We will obviously put those points to CMAL. However, why do you think that CMAL made those specific procurement decisions for the ferries? More generally, why does it continue to procure what you believe to be sub-optimal vessels?

**Roy Pedersen:** That is a good question, which I have been asking myself for a long time. Alf Baird and I serve on what used to be called the expert ferry group and is now called the ferry industry advisory group. When the new ships were being conceptualised, I challenged the design, asked what the maximum number of passengers ever carried on the Uig route was—I did not get an answer at the time, but I knew pretty well what the answer was—and suggested that a two-ship solution was the better option, with two simpler ships. Heads nodded, but nothing happened, so I do not know the answer to your question.

**The Convener:** Does Alf Baird want to come back on that?

**Dr Baird:** I taught shipping economics for 10 years in Norway, where I still teach occasionally. The Norwegians pay a lot of attention to education on maritime transport and economics—there is a discipline called maritime economics. A basic awareness of global maritime transport trends, developments and research, and expertise in shipping economics, are lacking in the Scottish

decision-making trio. They have a bunker mentality and cannot be convinced that there is a different approach.

In an arrangement in which CalMac specifies the initial vessel outline to fit the traditional requirements of the crew and so on, there is no real awareness or study of better options, and there seems to be no incentive to push for lower-cost, superior solutions. CalMac just goes for the same thing that it has always gone for. That is why Norway is quite happily replacing 15 ferries a year and has 40 on order for the next two or three years, whereas we sit with nothing.

**Mike Rumbles (North East Scotland) (LD):** I was particularly taken by Dr Baird's written submission, the first sentence of which says:

"Publicly procured ferries in Scotland are typically up to three times more expensive than comparable private and public/private ferry procurement globally."

I want to drill down into the tender that went in. The contract value for the two boats is £96 million. The August 2015 letter to the Scottish Government says that that figure is "higher than the £80m" included in the vehicle replacement plan and in "CMAL's 3-year Corporate Plan", which was published before the tenders went in. Therefore, the six shipyards that put in tenders knew in advance that the budget had gone from £80 million to £90 million.

I do not know whether you have seen the letter. In paragraph 6, it says:

"It was made clear to tenderers that the quality/price ratio for assessment of proposals was 50:50."

In other words, it was 50:50 on specification and price. Ferguson's bid

"was the highest quality bid received"—

in other words, it had the highest specification—

"but also the highest price"

of all six yards.

I will quote another paragraph from the end of the letter, which is from Transport Scotland to the cabinet secretary. It says:

"As with any procurement, a legal challenge from one of the unsuccessful shipyards cannot be discounted. CMAL have not identified any particular risks in this regard and, in any case, are confident that any challenge can be defended. That said, the relationship between Scottish Ministers and Ferguson's owner is well known."

Do you have any comment as to why you think that the highest bid of all—it was more than the Scottish Government's budget—was made by Ferguson's and was successful?

10:15

**Dr Baird:** That is a big question. One of the weaknesses of Scottish public sector ferry procurement is that it tends to announce to the world of shipbuilding yards and suppliers the price that it wants to pay. No commercial ship owner would ever do that. They would want the best bids; they would never announce the budget that they had to spend on the ferries.

The other aspect is that the CalMac specification is always unique: complex, overspecified, expensive, high powered and high emissions—it is non-standard. Every vessel in the CalMac system is different, so there are no economies of scale in production. Shipyards will always have to charge a high price for that type of product. It is like designing and building a unique car rather than just getting a Ford Fiesta or something.

The civil servants—and even officials at CalMac—often do not know the best and most efficient options globally, because they do not study the global situation; they are not necessarily trained to do that. They design something unique but tell the world the price that they are prepared to pay, so the whole procurement process is dilettante-esque and amateur—it is insane, in a sense.

**Mike Rumbles:** Following on from that, I will now direct my questions to both Dr Baird and Mr Pedersen. Your evidence so far to the committee is astonishing. Correct me if I am wrong, but your views are that the contract is overspecified and too expensive. We can go into the reasons for that later, but those are the two things that you have said to us. We know that the Scottish Government will basically move on from the current two ships and start again from scratch. Will they commit the same mistakes in the second tranche as they have committed in the first tranche?

**Roy Pedersen:** A series of big mistakes have been made. That happens sometimes. About two decades ago, BC Ferries ordered what it regarded as three state-of-the-art fast ferries, which were very expensive. The first one was tried a couple of times when she came on stream and was found not to work. All three were mothballed and eventually sold off. They hung around Burrard Inlet for about 10 years and were sold off at about 3 cents to the dollar. That was a big mistake. This is two ferries, so maybe it is not quite as big a mistake as BC Ferries made, but it is pretty big.

When you are on a losing run, it is good business practice to cut your losses and start again. It is the same when you are playing poker: it does not do to keep putting in good money after bad. Looking at the numbers, it seems to me, and

I think probably to Alf Baird, too, that the best option is to stop and start again.

**Mike Rumbles:** The evidence that we got last week was that the decision is just to get on with it, because that will be quickest—hence Jamie Greene’s earlier question—for the island communities, who want this ferry service. Do you think that it is wise simply to start the whole process again, as the Government is doing with the two new ferries for a similar £100 million cost, or are you saying that we should just forget that?

**Roy Pederson:** To complete the ferries in the given timescale would be difficult, because there are a lot of problems. It would take two years or more—we do not really know. You could build new ferries in that time. Andrew Banks in Orkney got the Andrew built in two years for £14.5 million, including delivery from Vietnam to Orkney.

Incidentally, Stewart Stevenson mentioned the windage factor on the Pentalina and the Alfred. In terms of resilience to weather, they actually perform better than the NorthLink Ferries ship the Hamnavoe. When none of CalMac’s ships sailed two or three weeks ago during the storms, the Alfred sailed and Western Ferries sailed.

**Mike Rumbles:** I have one final question, if I may, convener.

**The Convener:** You must be very quick, as a lot of members want to come in.

**Mike Rumbles:** In my first question, I invited comment but did not get an answer. Six other yards put in tenders and Ferguson’s, with the highest specification and the highest price, got the contract. Do you have any idea why that happened?

**Roy Pedersen:** I do not know the answer, but three things spring to mind. One is incompetence; another is vested interest; and the final one is corruption. If somebody else can think of other answers, they can give them.

**The Convener:** I see that Alf Baird wants to comment. I have a list of people who want to come in so, perhaps he can come in later unless he wants to specifically answer that point.

**Dr Baird:** One of the biggest surprises for me was that Ferguson’s does not build the complete hull length undercover, which is international standard practice and gets us away from the weather impact on steel. From a CMAL perspective, if I was ordering a vessel, I would be looking for a shipbuilder that could provide that. I have worked with naval architects in shipyards in different parts of the world where the full length of the hull is constructed undercover before it is launched.

**The Convener:** I have a quick question before we move on. You have commented on overdesign and overspecification. If the Government truly wanted to give the contract to a specific yard, could it not have bought a design that was already used elsewhere in the world and got the yard to build that design, rather than getting people who do not have the experience to design something that they do not know about?

**Dr Baird:** It is quite clear that CMAL uses different naval architects for different assignments. The problem with naval architects—with great respect to them, and to marine engineers—is that although there are a great many of them, there are relatively few great ones. The great ones tend to do repeat production of ships with superior hull form and bow shape, which they have developed over many years. Superior hull form and bow shape give a ship a tremendous competitive advantage because of its lower resistance to the elements and the water. That, in turn, gives lower power but higher payload. There are probably fewer than 10 great naval architects for ferries globally, and they work in, or closely with, the major shipbuilders of ferries—the Boeings of the ferry world, if you like. They are the people who do repeat production of standardised, proven ferry designs.

As I said, there are many naval architects but there are only a few great ones. The problem with the CMAL approach is that it tends to appoint different naval architects for different jobs, and it uses different shipyards for this, that and the next thing. They are all niche operators, but they are generalists rather than specialists. That is where we have a bit of a mismatch. The CMAL tender, together with the CalMac requirement, is always a unique, one-off, custom-built job.

**The Convener:** To drill straight down into this, you are saying that if you want to build a Mini, you get the design of the Mini and you build what is there—you do not go out and redesign the Mini and then build it to a separate specification to make it more complicated.

**Dr Baird:** That is right—

**The Convener:** And it is possible to do that.

**Dr Baird:** Yes. You just pick it off the shelf.

**The Convener:** Thank you. A huge number of committee members want to come in. Stewart Stevenson is next.

**Stewart Stevenson:** I am going to ask some questions about dual fuel, but, before that, I have a question for Dr Baird about pricing. You have to publish your tender in the *Official Journal of the European Union* and I understand that you are legally required to publish a ceiling price and a floor price. Therefore, the whole issue of what you



are prepared to pay cannot legally be withheld from the bidders—or am I incorrect in my understanding of the legal requirement?

**Dr Baird:** That may well be correct.

**Stewart Stevenson:** So it is correct.

**Dr Baird:** However, in recent times, CMAL has bought six ferries—five for NorthLink and also the MV Loch Seaforth—without a tender or any transparency around the price.

**Stewart Stevenson:** Are you saying that the ferries in question could have been bought without a tender? Would you have recommended doing that?

**Dr Baird:** I am saying that it does not seem normal to me for ferry companies—even public bodies across Europe, such as the Estonian ferry companies and so on—to announce the price that they are willing to pay.

**Stewart Stevenson:** The Estonians have to publish ceiling and floor prices when they use the *Official Journal of the European Union*. Am I correct on that legal position?

**Dr Baird:** I am not sure whether that is absolutely what they do. Certainly, in the shipping press that I study, I do not see prices being announced, apart from in Scotland.

**Stewart Stevenson:** Are you saying that contracts are advertised in the *Official Journal of the European Union* that fail to meet the legal requirement to provide a ceiling and a floor price?

**Dr Baird:** It would not surprise me if there is a ceiling and a floor price, but what we usually see in Scotland is that the price is a given for the ferries.

**Stewart Stevenson:** Was that the case with the new ferries? I believe that it was not.

**Dr Baird:** Everybody and their granny knew that the price was £97 million for two ships.

**Stewart Stevenson:** My granny has been dead for many years, but I can ask her. However, I put it to you, Dr Baird, that there was a ceiling and a floor price in the *Official Journal of the European Union*, as happens with other Scottish Government contracts, although that does not prevent a bidder from departing above or below those prices in their submission—you acknowledge that.

**Dr Baird:** Yes.

**The Convener:** Sorry, Stewart, but I must intervene. I take your point, but I think that what Mike Rumbles was trying to say is that there was a figure in the corporate plan for the purchase of ferries.

**Stewart Stevenson:** Correct.

**The Convener:** Do you have any further questions?

**Stewart Stevenson:** Yes, I do. I had hoped that my questions for Mr Baird would be rather brief, to be honest. This topic should not take long, though.

There have been some issues around the new ferries using dual-fuel propulsion, which has been used elsewhere around the world. In relation to the issue of climate change, up to 2020, marine fuel is still 3.5 per cent sulphur. The worst other transport area is aviation, which uses fuel that is 0.3 per cent sulphur, while cars use fuel that is 0.1 per cent sulphur. Is there not a fundamental need to look at marine fuel in that respect? The International Maritime Organization has sought to move marine fuel to 0.5 per cent sulphur by 2020, but I understand that only 4,000 out of the 120,000 vessels are ready for that and that the fuel distillers are not ready for it.

In the light of all that, is it the correct decision to go for a dual-fuel option for the ferries, which saves some money but fundamentally has a much lower beneficial impact on the environment? I am not even talking about particulates, which are another complication.

**Dr Baird:** The reality is that, for short-range ferry runs, which are what we see, the evidence from Norway suggests that most of the ferries are either battery hybrid or battery-powered and that liquefied natural gas is not attractive. LNG is more attractive for very long, overnight North Sea ferry routes, routes across the Bay of Biscay and other such routes, but it is not attractive for short-range domestic ferry routes. They are within the realm of battery-powered ships or diesel-battery ships generally.

Nevertheless, the unique CalMac design has double the power of what I would call a standard ferry. Western Ferries and Pentland Ferries have good examples of standard, utilitarian-type boats with half that power. They are efficient, high-capacity but low-powered vessels because of the hull designs and they do not necessarily have the add-ons that CalMac specifies. The CalMac fleet could be changed to diesel just now and could reduce emissions by 50 per cent quite easily, as Pentland Ferries has done, by using 3MW ships as opposed to 6MW or 8MW ships.

**Stewart Stevenson:** It would be fair to say, though, that the less-than-3-mile service that Western Ferries operates across the Clyde is a fundamentally different ferry service from, say, the service from Uig across to the Western Isles. That is just an observation. I will move on.

Do you agree with the International Maritime Organization, which says that LNG is the fuel that is best suited to new ships?

10:30

**Dr Baird:** It depends on the ship and run type. There are tankers, container ships, ferries, cruise ships, long runs, short runs and intercontinental runs. For intercontinental runs, ferries cannot run on battery power, but for very short runs—say, a 25-mile round trip—a ferry can run purely on 4MW of battery power. That takes the Arran, Mull, Skye and Mallaig services into the scope of pure battery power—all those routes could go to hybrid battery or battery power tomorrow.

**The Convener:** Can you clarify where the LNG comes from? Who supplies that?

**Roy Pedersen:** The south of England.

**Dr Baird:** Zeebrugge.

**Stewart Stevenson:** Is that the engine or the gas?

**The Convener:** It is the gas. I just wanted to check where the gas comes from.

**Mike Rumbles:** For the record, can I make one thing clear? I think that Stewart Stevenson misunderstands my question. It had nothing to do with the ceiling and lower prices. I was saying that the revised estimate of £90 million, which is in the Government's own paper, is included in CMAL's three-year corporate plan, which has already been published. The evidence was therefore correct—that estimate was in the public domain before the tenders went in.

**Richard Lyle:** Our inquiry allows us to look at what we did, what went wrong and how we can fix it. Hindsight is a wonderful thing.

We are still stuck in the past, building ferries that do not suit us. What do you say to the comment that the ferries were meant to future-proof capacity? When I was on the islands, I heard complaints such as, "We cannae get our cars. We cannae get off the island."

You suggest that we should make a standardised ferry that is like a Mini and not like a Rolls-Royce—a basic ferry that works for all our islands along the lines that have already been discussed—and that that standardised ferry could be built in Scotland. I want them built in Scotland, not in Vietnam. With the greatest respect to the Vietnamese, I want them built in Scotland, and a standardised ferry could be built here.

**Dr Baird:** That has been offered. One of the best global designers—in my view—has offered, on a number of occasions, to design production-line, standardised ferries to be built at Ferguson's.

However, they could not do it so long as CMAL kept ordering traditional, high-cost, high-spec ships.

It can be done. The normal process in European yards has been to build parts of the ships—even hulls—in lower-cost countries and bring them back to the western European country to finish them off. Most of the add-ons—the engine, the propulsion system, marine evacuation, the bridge navigation system—can be sourced locally.

**Richard Lyle:** Have you ever watched a ship being built on YouTube? It comes in sections. It is amazing. You can see the timeline and speed it up. It is like Lego.

**The Convener:** Please ask a specific question.

**Richard Lyle:** With respect, I want to make a point. Ships nowadays are not made by throwing up a rivet and banging it in. They are prefabricated. I have seen them cut and shut, too.

**The Convener:** Your question, please.

**Richard Lyle:** Can we do things better?

**Roy Pedersen:** Yes.

**Dr Baird:** Not only can we do things as well as anybody else; we can do them better, but we need to bring in the best design competence for the hulls. We do not have the right naval architecture expertise in standardised production and in proven designs. That goes back to the hull form and the bow shape as being, largely, the competitive advantage. That is what we need to exploit. If a shipyard has no specific design advantage, it has no advantage globally.

**The Convener:** We will move on to a new question, from Jamie Greene.

**Jamie Greene:** I want to follow up on something. I have questions on procurement, which I will ask later. I think that Emma Harper has some questions on the future, too.

It is good to look forward. We need to build more ships—that is a given—and we want to ensure a pipeline of work for Ferguson Marine. Why do you think that the decision was made to go ahead with the dual-fuel LNG model rather than the hybrid model that you have just described? What type of vessels would you recommend that we build in the future?

**Dr Baird:** Fundamentally, the CalMac design or specification of ship is too high powered for a zero-carbon operation. However, if you were to specify a more standardised production-line-type vessel of the sort that we have in Orkney—for example, the Pentalina and its successor, the Alfred—you could have the same ship with capacity for 100 cars for half the power. That would get into hybrid battery technology fairly

quickly. The reason why CalMac went for LNG is that LNG has the support of the IMO and so on—although that is mainly for long-range routes rather than shorter routes—and is one of the few options for higher-powered vessels.

**The Convener:** Angus MacDonald has some questions on that, and so does John Finnie.

**Angus MacDonald:** My questions are on procurement, so I am happy to come in after Emma Harper.

**John Finnie:** My question is on the point about fuel and propulsion, which is covered in your submission, Mr Pedersen. We are in the middle of a climate emergency, and you say:

“LNG has a slight edge in environmental terms in that it is a cleaner fuel than diesel, but it still produces CO<sub>2</sub> when burned.”

You go on to talk about the round trip that is involved in delivering the gas to Uig and the CO<sub>2</sub> contribution of that. Can you comment further on that?

**Roy Pedersen:** It is a roughly 1,000-mile round trip from the south of England to Uig to deliver the fuel. That will probably be carried by diesel lorry—it might be an LNG-powered lorry, but it will probably not be. I have not done the sums, but it is likely that hauling the fuel on that 1,000-mile trip will negate the relatively minor advantage of LNG.

**John Finnie:** The Scottish Government has declared a climate emergency, and it is important that transport systems work collaboratively. Is that the case for the ferry system? If we are going to have integrated transport, we must have regard to the total emissions rather than simply the specification of one vessel.

**Roy Pedersen:** I totally agree with that. Another thing that one should take account of is that there are opportunities to make ferry crossings shorter. It has been done in the past and there are opportunities to do it in the future.

A ferry is a much less efficient way of moving vehicles than driving them along the road. In other words, we will release more CO<sub>2</sub> and other nasties into the atmosphere by putting vehicles on a ferry than we would by driving them along a road, so the shorter that one can make the ferry crossing, the better it is for the environment. We should look at opportunities to do that.

I have written several papers outlining how that can be done. Alf Baird and I did some work on Orkney on the options for taking a vehicle from Edinburgh. The best option is the shortest crossing, between Gills Bay and St Margaret's Hope.

**John Finnie:** I have a short question about the role of Transport Scotland, which has

responsibility for all aspects of transport in Scotland. Given Transport Scotland's involvement in the process, are the overall emissions a factor that you would expect to be taken on board with regard to propulsion systems?

**Roy Pedersen:** They should be. To be fair, the climate emergency has been rumbling in the background for a while and is now full-square on the agenda. There is a growing awareness of the need to address such issues.

**John Finnie:** For the avoidance of doubt, I was not ruling any options in or out, but we have to think about things holistically rather than on the basis of one individual ship.

**Roy Pedersen:** Quite so.

**Peter Chapman:** The project review board concluded that continuing to build the two new ferries—even though it will cost us about £110 million—should be the intention. We kind of have the answer to this question, but I will ask it of both Roy Pedersen and Alf Baird: do you agree?

**Roy Pedersen:** That the vessels should be built?

**Peter Chapman:** That the best decision is to carry on and finish the two ships at a cost of roughly £110 million.

**Roy Pedersen:** Plus the cost of the terminals, which is a lot of money. No—I disagree.

**The Convener:** I ask you to leave out the terminals for now, as they will be the subject of further questioning.

**Peter Chapman:** I will drill down into this a bit more. You suggested that we might finish vessel 801 but scrap the 802, as a kind of halfway-house solution. Can you explain that a bit more?

**Roy Pedersen:** I put that in my submission as a sort of face-saving measure. Personally—if it was me making the decision—I would scrap them both. However, finishing one vessel might be a face-saving measure. I believe that an LNG supply is available in Orkney, so it might make sense for the vessel to be used on the Stromness to Scrabster route in place of the Hamnavoe, which is a gas guzzler: she has 8MW of power and burns dirty, heavy marine fuel. That is one suggestion, but my personal preference would still be to scrap the 801.

**Dr Baird:** My suggestion was to redesign the vessels in a way that was more akin to what a commercial operator would do. That would involve specifying the passenger to car ratio down to about 4:1 or 5:1, meaning that we would not need 1,000 seats and 1,000 other bits and bobs. We could take away much of the à la carte restaurant dining stuff, the fancy carpets, the art treasures, the cabins for the crew, the hotel and everything.

Then we would have a stripped-down, standard production-line vessel to some extent—with the downside that it would be dual fuel, with the added complexity and cost of that. It would still be using fossil fuels. I do not know whether it would be possible to take that down to lower-powered marine diesels, too.

There is a risk of the two vessels being built as they are, and not only will they be vastly overspecified, as is normal with CalMac vessels, but they will be running on fossil fuels for 30 years. I do not think that that is where we should be going. We are trying to move away from fossil fuels, and we can do it. I think that the only option is to strip the vessels down and build them as standard production units as much as possible, so as to reduce the cost, which I estimate could be halved.

**Peter Chapman:** Is that—

**The Convener:** Sorry, Peter, but I would like to bring in Angus Campbell, because he has some comments about whether the ferries should be built.

**Angus Campbell:** My starting point was that we should include what the communities need and want in the ship design, and I am getting a bit concerned hearing about the driving down of standards and the type of ship. That conversation must take place in the greater community to ensure that we have ships that are fit for purpose. Although ships can be said to be overspecified, the community still deserves a certain level of service, and we should not throw that out the window in our discussions.

Everybody around the community board certainly wants the most green type of fuel to be used. The ideal solution would be for green energy that is produced on the islands to go into battery form to power the ships. That is not far away, and it would have a dual effect in benefiting the economies of the islands, too.

**Peter Chapman:** You obviously think that the fine dining is important for the people on board, but that is one of the things Alf Baird has suggested we do not need. Do you disagree with that?

**Angus Campbell:** I do not think that anybody is looking for fine dining, but ferries all over Europe have a certain standard of service, and we should not throw that out the window. I am not suggesting that the other gentlemen here are saying that, but the terms that are being used suggest that we could have a cheap form of transport that would give a very basic service. Some of the trips are long. All that I am saying is that there should be a conversation with the communities to ensure that, wherever we draw the line, an acceptable level of service is provided.

10:45

**Peter Chapman:** Dr Baird, will you say more on your suggestion that we could use the hulls as they are but redesign the whole inside to have more cars and less seating?

**Dr Baird:** The vessels are designed only for one-hour or two-hour routes, which is snack bar distance, not à la carte distance. If the Government wants to finish the vessels, it should go for a more streamlined and lower-cost option. If there is £110 million to be spent on ferries, the other option is to go to China and buy five. If you want to build them here, another option is to build four under licence with some of the best global designers. However, as the turnaround director and his review board suggest, to finish the vessels as they are is high risk, because there is a risk that they do not meet the deadweight and speed requirements and might still be rejected by the owner.

**Peter Chapman:** How realistic is it to completely redesign the inside of the ship along the lines that you suggest? One of the big problems that we learned about last week is that the ships were being built but there was no overall design. Stuff was built and then had to be ripped out because it was outwith the specification and so on. You are suggesting that we go back to basics and redesign the whole interior.

**Dr Baird:** I understand that there is no finished design anyway, so in essence there is still a blank sheet of paper within a hull size. There is a hull size and a hull width, and the configuration that is put in it can be anything that you want. Ships are cannibalised, changed, adapted, extended and stretched every day, and the length, width and height can be increased. We know from Roy Pedersen's studies and other studies that there is no need for 1,000 seats or 40 crew on those boats, and that all the related paraphernalia does not need to be carried. We just need to provide a Ford Fiesta, as it were, rather than a Jaguar.

**Peter Chapman:** On a completely different tack, what is your view on the nationalisation of the Ferguson Marine shipyard and its future role in providing new vessels for Scotland's ferry companies?

**Dr Baird:** I mentioned that there are only a handful of great naval architects of ferries, and any shipyard needs to have a close connection with one of those people. You can have as many naval architects as you want but, if the ships do not have a proven hull form and a bow shape that provide a competitive advantage, they will struggle. That is the number 1 factor in having a long-term competitive advantage.

State ownership of shipyards is quite normal. It is normal in France to some extent and in Italy,

Finland and other countries for the state to have some equity in shipyards.

**The Convener:** I will delve into that issue a wee bit, so that I understand it. You say that, if I was ordering a ferry and was going to give a yard a contract, I should have confidence that there is a great naval architect attached to the yard to design the ferry.

**Dr Baird:** Yes—they are an advantage. The best ferry shipyards, such as Flensburger, Visentini, Austal and Incat, have the best designers in-house.

**The Convener:** If the architect was not in-house and the yard did not have a close association with them, should I be nervous if I was ordering ferries?

**Dr Baird:** Yes. The long-term sustainability of the yard would be in doubt, as would be the advantage of the yard in providing top-class tonnage.

**Roy Pedersen:** The option for moving forward is a partnership with a known and high-class naval architect and designer. It would be a partnership, because I do not think that the yard would be capable of doing an efficient job on its own. You also need good management in the yard, and that is what has been questionable in the past.

**Peter Chapman:** Dr Baird and Roy Pedersen have both stated that, unless we reassess the type of ship that will be delivered for Scotland's ferry service, we will go down completely the wrong route, and that, if Ferguson Marine is to survive in the long term, it has to recognise that point, as do CMAL, CalMac and Transport Scotland, because otherwise we will go down a blind alley. Is that assumption correct?

**Roy Pedersen:** That is a fair description. We would be spending large amounts of money when it is not necessary. If it is done right, a bit of a guess is that a round figure of £100 million a year could be saved on the CalMac contract. If it is done wrong, it could cost an extra £100 million a year. That £200 million a year could go to our cash-strapped health and education services. My son-in-law is a teacher, and there are a lot of problems there.

**The Convener:** We will not work out where the money could go, as it is not necessarily on the table. I will take follow-up questions from Maureen Watt, then a brief one from Richard Lyle and we will then move on to Emma Harper.

**Maureen Watt:** Would the gentleman who represents the communities who are served by CalMac like to comment? I am thinking especially about the tourist providers in those areas. They have seen a great increase in tourism; do they think that tourists will be attracted to the islands if they have to go on the bucket-type ferries that

have been suggested by Dr Baird and Mr Pedersen? Would those ferries be suitable?

**Eoin MacNeil:** My island has benefited greatly from tourism, especially over the past five or six years. The numbers have increased; two new planes are serving us and are a great resource.

If we were to go to bucket-type seats on the ferries, the numbers would definitely drop. Road equivalent tariff has worked in our favour, but it has pushed the ferries and probably some of our tourist outlets to the limit. The community is adjusting quickly by, for example, bringing in electric bikes and hire bikes. It has been a great few years for tourism. A five-hour sailing needs a bit of comfort and more than a snack bar.

**The Convener:** Angus Campbell will be next, and I will let in Roy Pedersen or Alf Baird—one of the two, to be decided between them—to say whether “bucket shop” is the right description of what they are suggesting.

**Angus Campbell:** A person in the tourism industry commented to me in the past couple of weeks that the ferry trip is part of the experience for visitors to the island. There is certainly a concern about where to draw the line, which is what I was referring to earlier.

**The Convener:** Who is going to come back on whether the service standard would drop? Are you proposing a bucket-shop ferry, Mr Pedersen?

**Roy Pedersen:** No—that does not describe it properly. It depends, and it is horses for courses. If the route is an hour or less, a fancy restaurant service is clearly not needed. A five or six-hour crossing is a different kettle of fish, so a reasonable standard of catering and comfort is needed.

**The Convener:** I will bring in Richard Lyle, briefly.

**Richard Lyle:** We could have tourist class or business class, depending on the type of ferry that is wanted.

I was not here for last week's evidence session. We have heard that a naval architect should be in a yard to make sure that everything is okay. Dr Baird, do you know whether there was an architect on the staff in Ferguson's yard?

**Dr Baird:** I was suggesting that there is only a small number of great naval architects in the ferry sector. That could be compared to aviation, where there is probably only a handful of great aircraft manufacturers. The reason for that is that they have the design competence. Probably one of the downsides of the people who were contracting those vessels is that they did not use the best available design expertise. I include in that the contractor and perhaps the yard—it is maybe a bit

of both. I do not think that the naval architects involved were at the cutting edge of ferry design.

**Emma Harper (South Scotland) (SNP):** Before I ask about the lessons that could be learned, I want to ask about the issue of hotels on ships. Stena Line and P&O Ferries have big ferries that take two and a half hours to get from Cairnryan to Larne. P&O has many staff who are European Union citizens and who spend a month on the ship and then have a month off, so they require to stay on board for some time. For example, some folk live in Estonia but work on the ferries. What is the difference between those ships and the Scottish ferry fleet? Are you suggesting that we do not need hotel accommodation on the ships because they will have Scottish employees who reside in Scotland?

**Dr Baird:** Most of the routes on which P&O Ferries and Stena Line operate are much longer than the routes in the North Channel, so they have much larger vessels. Those companies probably organise crewing arrangements for the entire fleet. From the Norwegian examples and other domestic routes, we know that, in general, much smaller vessels are used for short routes of less than three or four hours, with fewer passengers and cars, so it is not necessary to live on board. In fact, for years now, in Orkney and Shetland, crews have had to live on the islands—that is one of the conditions of employment. The RMT already accepts that in many cases, so there is no reason why it should not accept it in the case of, for example, Arran or Mull. Those are only one-hour crossings, so why should 40 cabins and all the crew—three times more than is needed—and facilities be carried on every voyage? That is where all the subsidy goes.

The bottom line is that the more we put into subsidising an inefficient system, the less new tonnage we get. Scotland is not producing enough ferries—compared with Norway, we are way substandard. We need to not only replace ferries but increase the ferry fleet, which is underdeveloped. The crewing system that Emma Harper has explained is largely responsible for an underdeveloped system that is constraining island communities.

Fundamentally, the job of ferries is not to increase employment at sea but to improve the economic wellbeing of the communities that the ferries serve. We need to put the system's objectives at the forefront. As well as having a green energy system, we need to enhance the lives and socioeconomic reality of people in those communities. The creation of employment at sea is a side benefit, but that is not the fundamental objective of ferries, although it is what is driving their design.

**Emma Harper:** It takes two and half hours to cross the Irish Sea, and many employees on the P&O line—

**Dr Baird:** There have been previous attempts to have shore-based crews. Sea Containers used to run vessels with smaller numbers of crew and provide shore-based accommodation such as guest houses. That was in quite remote areas such as Stranraer, but it has been done. Some cross-channel operators also used shore-based crew, so it is not the case that all crews live on board. Of course, those are flags-of-convenience vessels, which tend to access lower-wage crews. We are not comparing like with like; we are talking about a completely different type of arrangement.

**Emma Harper:** What lessons, if any, could Transport Scotland, CMAL and other stakeholders learn from how ferry services and vessels are specified, procured and operated in other northern European countries? We have heard that Norway does that really well. There are differences, including Scottish infrastructure and how the tides affect the water in Scotland, but we can learn from other countries.

**Roy Pedersen:** That is right. We should look at international best practice. In a nutshell, the Norwegians and Australians do it very well. They take different approaches but, if we more or less copied either approach, we would get pretty close to what is required.

There are differences between Scotland and Norway. In some places in Norway, there is no tidal range, but there is more in north Norway. In general, Scotland has a greater tidal range than Norway, but that is not a particularly difficult situation to overcome. The linkspans are longer in Scotland—that is all.

11:00

We have been through this already today, but the Norwegian model includes simpler vessels; less passenger accommodation, because it is not required; simpler passenger accommodation, especially on the shorter routes, but more comfort on the longer routes; and more frequent services with shorter crossings where possible. That is the Norwegian way. If we were to emulate that philosophy, we would get a better service for less money.

**Emma Harper:** Should we do things differently when we are planning future specifications for ferry replacement? Should we tender in a different and more planned way?

**Dr Baird:** The ferries review a decade ago made recommendations to tender routes in the same way as the Norwegians do. That would mean having smaller bundles and operators

making a commitment to invest in tonnage. The onus is then taken away from Government officials under the tripartite system and placed on operators.

Private operators do not bid for Scottish ferry services, because they would be committed to using the CMAL fleet. In essence, that fleet is the cost structure of the operation, so there is no way that private operators can differentiate their bids. They would be using the same fleet, crews and cost structure, which cannot be changed. That means that we do not get innovation in the bids. Even a decade ago, the private operators that we had in workshops said that they needed smaller bundles. We would have small geographic bundles of routes, with maybe three or four routes served by five or six vessels, or maybe more in the same bundle, and put the onus on the operators to provide the tonnage.

There is no other asset vehicle like CMAL in Europe—it is a unique vehicle as a monopoly provider of ships. The operator has to take the ship that it gets. It is a bit like buying a Ford, where you can have any colour that you want, as long as it is black—you are getting that product. There is therefore no scope for innovation in the procurement process.

This is a bit outwith what we have been discussing but, if the procurement process was more in the normal European vein, it would involve long-term concessions with small bundles of routes, with half a dozen or eight vessels per bundle and plenty of relief cover, so that we do not have the fallacy of the relief ship, which does not really exist anyway in the current system. That is the way to get modernisation and that is why Norway has provided 200 new vessels in the past two decades while Scotland has produced a handful.

**The Convener:** Jamie Greene has a follow-up question, and then I want to ask a couple of questions before we conclude.

**Mike Rumbles:** Could I also ask a question?

**The Convener:** Yes, there will be time for other members to ask questions.

**Jamie Greene:** The discussion has been fascinating. One of the difficulties that the committee has with an inquiry of this nature is that, to look forward, we have to look back. We are already seeing a merry-go-round of blame. We have a workforce that is doing what it is told and building what it is told to build; a yard that is building a design that it was given; a client that is giving ships to an operator that operates the franchise within the constrictions of the ships that it is given; and Transport Scotland, which can build ships only according to the budget that it is given by the Government, and so on.

The picture that is emerging is of a very complex structure to procure, build, design and deliver ferries in Scotland. If we could learn some fundamental lessons from the past decade or two, what would you do differently? What could we immediately do differently to ensure that we get a new fleet of vessels to serve our island communities?

**The Convener:** There is probably a long list of things that Roy Pedersen and Alf Baird want to mention, but I ask them to mention just two simple things that could help us.

**Roy Pedersen:** You could develop a simple standard design for application on the shorter routes in Scotland and put out a contract to get those ships built using an accredited naval architect and designer in a joint venture.

**Dr Baird:** There has to be that kind of vision, using a standardised approach and the best competence. The people who decide on the ferries that we get do not have the best competence to do so. They do not have the knowledge or the vision or, for some reason, they are limited in other respects, perhaps politically.

The RMT has to be brought into the equation. There could potentially be a lot more jobs. In essence, Scotland needs to produce at least five new ferries every year to even get close to what Norway provides. We are struggling to provide one every two years, or 10 per cent of what Norway is doing.

**Mike Rumbles:** Richard Lyle asked about the naval architect at Ferguson Marine. The answers that we have had on that issue have been important, but it is important to put on the record that Mr Andrew Alexander was the chief naval architect at Ferguson Marine. He was invited, had accepted the invitation and was due to appear before the committee today. After listening to the evidence from our witnesses, it would be appropriate for the convener to consider inviting Mr Alexander again, because he might want to give us evidence on the design of the ferries.

**The Convener:** In answer to your question, which is not directed at the panel, the committee may wish to reflect on that possibility after this meeting. I have noted your comment.

I am afraid that time is running out. I have a couple of quick questions to finish.

In the tender documents that Mr Rumbles and I referred to earlier, I see that Transport Scotland wrote to the Scottish Government to say:

“on the basis of the information available to us at this point, the risk of major infrastructure requirements to accommodate these vessels ... is considered to be low.”

I am now confused about why Roy Pedersen said that the vessels were quite big. In addition, some of the evidence that I have heard indicated that some of the infrastructure assets belong to the island communities and that they were having to build them. Is that correct? Is the requirement for major additional infrastructure to accommodate the vessels considered to be low?

**Roy Pedersen:** I disagree with that; I consider the requirement to be high.

**The Convener:** Councillor Robertson, do you have a view on that matter?

**Councillor Robertson:** The pier at Lochmaddy in North Uist is owned by the council, the one in Harris is owned by CMAL and the one in Uig is owned by Highland Council. Our preference was for vessels the size of MV Hebrides. Although some infrastructure work would be needed, it would be nowhere near the order of the £50-odd million that is required now.

**The Convener:** Should consideration of the infrastructure to accommodate the vessels have been an integral part of the contract for their construction and build?

**Councillor Robertson:** Absolutely.

**The Convener:** I see panel members nodding their heads.

That consideration would include the fuel storage facilities for the LNG, which have not been mentioned at all. I am not voicing an opinion on whether that is the right fuel or not, but there is no mention of that. Should consideration have been given to that?

**Roy Pedersen:** Yes.

**Councillor Robertson:** In response to the question that Mr Finnie asked about LNG, I believe that there have been discussions between CMAL and Mowi in Kyleakin, which uses LNG.

**The Convener:** Indeed. When we were at the plant there, I believe that there were discussions about LNG and the storage that was being used, so I think that you are right.

I am afraid—

**Richard Lyle:** Convener, can I point out that the relevant constituency member, Stuart McMillan, has been here for the past two hours, and it is custom and practice in this committee that, when another member comes along, they are allowed to ask questions. I suggest that Mr McMillan be allowed at least a few minutes to ask questions, as the local member.

**The Convener:** This evidence session was due to finish some time ago. I have given—

**Richard Lyle:** It would be the first time—

**The Convener:** Mr Lyle, will you please listen to me? I have given as much time as I can to committee members to ask questions. Unfortunately, our time is at an end. It is up to the convener, in the same way as it is up to the Presiding Officer in the chamber, to decide where the questions should come from. At this time, I am afraid that I have made the assessment. The management of time—

**Richard Lyle:** This is the first time that I have found that a member has come along to a committee and has not been allowed to ask questions, and I record my dissent in regard to your comments.

**The Convener:** I understand. I am sorry. This conversation has gone as far as it is going. I am afraid that we are out of time.

I thank the witnesses for giving evidence. If you want to add anything to what you have said, the committee would welcome written submissions.

11:10

*Meeting suspended.*



11:16

*On resuming—*

## Digital Connectivity

**The Convener:** Item 2 is evidence on digital connectivity, including the reaching 100 per cent—R100—programme. I welcome the Scottish Government's Minister for Energy, Connectivity and the Islands, Paul Wheelhouse, and his officials Claire Blake, R100 commercial director, and Robbie McGhee, head of digital connectivity. Minister, I invite you to make a brief opening statement of up to two minutes.

**The Minister for Energy, Connectivity and the Islands (Paul Wheelhouse):** Thank you, convener. I welcome the chance to address the committee this morning.

The Government is committed to closing the digital divide. Over the past five years, we have seen significant improvement in the availability of superfast broadband, with coverage increasing by 35 percentage points, from 59 per cent in 2014 to 94 per cent in 2019. The increase is in part due to the success of our £400 million digital Scotland superfast broadband programme. As a direct result of DSSB, more than 943,000 premises across the length and breadth of Scotland can now access fibre broadband—around 103,000 more than was originally anticipated.

Before DSSB began, only 21 per cent of premises in the Highlands were expected to have access to fibre broadband, with no planned coverage at all in Orkney, Shetland and the Western Isles. Today, more than 93 per cent of premises in the Highlands and more than 80 per cent of premises in Orkney, Shetland and the Western Isles can access fibre broadband.

As a result of higher-than-expected take-up of services on DSSB-funded infrastructure, a total of £38.7 million has been reinvested in the programme through a contractual mechanism known as gainshare. The additional funding will ensure that DSSB goes further still, with deployment set to continue during 2020.

However, the provision of broadband infrastructure is primarily a commercial matter. On that front, infrastructure providers continue to roll out services, aided by our 10 years of rates relief on newly laid and lit fibre. Commercial providers will continue to play an important role in meeting our digital connectivity ambitions.

We recognise, of course, that more needs to be done, which is why the Government has chosen to invest to extend superfast broadband access to 100 per cent of premises across Scotland by the end of 2021 through the reaching 100 per cent programme, which includes aligned interventions,

as we have discussed before in this committee. At the end of last year, I announced that we had signed contracts with BT for the central and south lots of the R100 procurement. I also announced that the contract award for the north lot was subject to a legal challenge and that we would be unable to award the contract as planned until the challenge was heard and resolved.

Upon completion of the R100 programme, Scotland will be the only part of the UK with universal superfast broadband access, ensuring that Scotland is ahead of the curve. Many areas are getting extensive full-fibre coverage through our R100 contracts.

I am happy to take members' questions.

**The Convener:** Thank you, minister. We have a lot of questions and, as ever, the committee's time is short, especially as there is an earlier sitting in the chamber today. Jamie Greene will ask the first question.

**Jamie Greene:** Good morning, panel, and thank you for coming. Let us start by taking a step back and looking at the overall picture of what the R100 programme delivers. The Government announced a budget of £600 million for the project, which I understand has three elements: procurement, commercial build and aligned interventions. We will talk about the aligned interventions later, so I will park that for now. Will you talk us through what the £600 million buys us? Which elements of those contracts does it pay for?

**Paul Wheelhouse:** That is a helpful question. The £600 million is for the main procurement under R100. It recognises that there are white space areas, as they are known, where the open market review could not identify that any commercial build was planned at the time. Those are the eligible premises that will go forward through the main procurement that we have put out to tender. As I outlined in my opening remarks, we are at various stages in the process of signing those contracts.

The £600 million is spread across three different lots, with £384 million allocated to the north lot area, which is the subject of a legal challenge, £133 million for the south of Scotland area and £83 million for the central lot area. That will pay for the installation of infrastructure. In the south of Scotland, it will provide full fibre for all but just over 200 of the 26,000 premises that were identified. In the central area, we have a target list of 55,000 premises, of which the vast majority will get full fibre while others will get fibre to the cabinet—FTTC—solutions.

**Jamie Greene:** To clarify, the £600 million, which I presume the Government will put into the relevant budget years—we will see when the budget is presented to us—is for spending in

areas where there is no commercially viable option. In other words, we would not expect the £600 million to reach 100 per cent by itself; there will be £600 million of Government intervention plus the commercial build of which you have had advance notice from commercial suppliers and the aligned interventions.

Will you give us a picture of the overall spend that you believe will be required to reach 100 per cent? It is not simply the case that R100 equals £600 million; it sounds to me as though R100 equals £600 million plus commercial build plus aligned interventions. What are the other numbers?

**Paul Wheelhouse:** It is difficult to give a financial figure for that, but Mr Greene is correct that there are three different groups. He mentioned the two principal ones—the R100 programme and the commercial build. Through the open market review process, the Scottish Government gathered information about the commercial superfast plans to which Mr Greene alluded, and that informs our intervention in the area. However, the operators do not tell us how much they are spending to deliver the coverage, so that bit is difficult for us. There is no mechanism for us to obtain that information, which is deemed to be commercially confidential for each of the developers.

Extensive work has been undertaken to evaluate the likely cost of delivering broadband vouchers. I have access to a figure, which I can supply to the committee, for the anticipated commercial roll-out, although that is being adjusted.

As I mentioned in the statement that I gave to Parliament following the announcement of the contracts, we have to take account of the latest available information about commercial build in each of the two areas for which we have already contracted. BT has adjusted its design to make sure that it is not using our money to cover areas where broadband will be delivered by commercial developers. We can provide the committee with some figures if that would be helpful.

I have some figures with me now. They might be out of date, but they give some indication. In the central lot, which covers much of central Scotland—broadly, south of Dundee, Doune and Stirling—there were originally 1.938 million premises that needed to be targeted and 1.737 million that had already been connected. We were aware of 102,000 premises that were being connected by commercial developers. That left about 55,000 premises for us to tackle through the R100 procurement process.

I will repeat the figures that I have given in the chamber if that would be helpful. We will deliver to

87 per cent of those 55,000 properties through the central R100 contract. The relatively small number that remain—just over 7,000 premises—will have to be delivered to through our aligned interventions. I hope that that gives a sense of the scale and where we have got to. We knew of over 100,000 premises that were going to be connected commercially at the point when the OMR was done for the central area. We are topping that up with the R100 programme where properties require subsidy in order to be addressed.

The equivalent figures for the south area, which is a much smaller area in terms of population, are that there were 198,979 premises, of which 156,165 properties had already been connected, and we knew of just over 10,600 commercially planned investments across the south of Scotland. That left just over 26,000 premises, as I mentioned in the chamber, of which 99 per cent will get a full-fibre solution.

I hope that that gives the context, but we can provide figures to the committee following this meeting, and we will be able to provide figures as the design is finalised later in the year.

**Jamie Greene:** I fear that we may be venturing into other questions as we get into the minutiae, but thank you for the information.

I want to look at the overall picture, putting aside the north lot, given the sensitivities around that. The south and central lot contracts have already been signed, but there is still a lack of clarity about their nature. What is the Government actually contracting the suppliers to deliver? Did you say to them, “This is how much we’re putting in to deliver to the households that you’re not going to deliver to—what are you putting into the deal?” Is that commercially sensitive information that you either do not know or know but cannot share?

**Paul Wheelhouse:** I will check with my officials. I can give a figure for the amount that BT is putting in collectively to the central and south lots, if that is helpful. BT’s investment, which is on top of the investment from us and the 3.5 per cent from the UK Government, brings the total to £600 million across the three lots. For the central and south lots, I have given the figures of £133 million and £83 million from the R100 procurement package that the Government is putting in, and BT is putting in approximately £34 million—we do not want to be too precise about it. That takes the total investment in those two areas to £250 million, with £34 million of that coming from BT.

**Jamie Greene:** Okay. I will park my other questions for now. We will talk about aligned interventions later.

**Maureen Watt:** Good morning, panel. It would be helpful if you could provide the committee with a table that gives a breakdown of the figures on

what was covered by BT Openreach and the amounts from the Scottish and UK Governments. You have given us a breakdown of the central lot, but can you do so for the other areas?

**Paul Wheelhouse:** May I interject? Given the on-going finalisation of designs, we may not be able to give you final figures until later in the year, but we can give you an approximation.

**Maureen Watt:** You have an idea of the number of premises and how many have been covered already. For example, the central area is highly populated and that lot is more commercially viable compared with the north and south lots. Those figures would be helpful.

When you refer to providing fibre to premises, does that cover all commercial and domestic properties?

**Paul Wheelhouse:** In the south of Scotland, where we have specified that 99 per cent of the target list of proper premises will get full fibre, that includes both domestic and non-domestic premises. It should cover 99 per cent of those premises that we were aware of that were not being covered by commercial operators. In the south, just over 200 premises will require another solution. The figure is larger in the central area, where about 7,000 properties in the R100 target list will require an alternative solution. However, the answer is yes. The solutions that we have set out cover both domestic and non-domestic premises.

**The Convener:** Minister, will you clarify the figures that you are going to provide to the committee? Are they for the south, central and north lots or just for the south and central lots?

**Paul Wheelhouse:** At the moment, convener, they will just be for the south and central lots. Because of the challenge, we are unable to give figures for the north lot.

**The Convener:** I thought that that was the case; I just wanted to clarify that.

11:30

**Peter Chapman:** Minister, you said in response to Maureen Watt's question that there will be almost 100 per cent fibre to the premises in the south area. Will folk who are already connected with a reasonable service get an upgrade and also get FTTP, or are we just looking at what the R100 programme can deliver?

**Paul Wheelhouse:** We are just looking at the R100 programme, Mr Chapman. It is a good point to raise. We can intervene only in those areas that have been pre-cleared for state aid purposes—the areas where no market solution has been provided through commercial operators. Of the just over

26,000 premises that we put into the R100 bid for the south, 99 per cent will get full fibre. However, you are quite right to identify that a lot of premises already have a connection of one type or another.

Operators such as BT have made their own views known about what they would like to do with respect to premises that are on fibre to the cabinet—FTTC—or other solutions: they intend to remove copper, for example. However, it is not yet in legislation or regulations that that has to be done. They are suggesting a target date of 2027 to remove copper from those premises and replace it with fibre, but that is a matter for commercial operators as it is not regulated.

I do not know whether Mr McGhee can say something on that.

**Robbie McGhee (Scottish Government):** The only point to add is that the UK Government has indicated that it has a further investment programme—it has talked about £5 billion. Again, it would be for those premises that can currently access superfast speeds but are not on a full fibre connection. Presumably, those premises would be part of that roll-out if they are not in line for a commercial upgrade.

**Peter Chapman:** Does that mean that existing premises with FTTC, for instance, are all receiving at least 30 megabits per second?

**Robbie McGhee:** People may be on FTTC connections and not be receiving 30Mbps, but all those premises are in the R100 intervention area.

**Colin Smyth:** On that point, minister, you talked about state aid rules, but in many ways you are changing the goalposts, because you are now saying that the R100 programme is, in effect, FTTP. In the south, for example, the commercial side will deliver FTTP in some homes, such as new builds, and R100 will deliver FTTP, but there will be a huge gap in the middle that is made up of people who will not get FTTP because it is not commercially viable. Surely that group of people falls under the market failure side of things? In effect, you have created a group of people who will never be part of commercial FTTP provision—they may have reasonable speeds, but futureproofing is another issue—and are not part of R100. They are being missed out because you have moved the goalposts.

**Paul Wheelhouse:** I think that there might be a bit of confusion about that issue, so I will try to clarify it now. Robbie McGhee outlined the situation for those who are already on a FTTC connection. They might have less than superfast standard speeds because they are a long distance from a cabinet. They might be a mile and a half or two miles away from a cabinet, and there is a digression in speed the further away you get from

a cabinet. Those people would be eligible for assistance from us to get a superfast service.

We identified those areas that we knew were not going to receive a commercial superfast solution and we have got clearance to help the premises there. We got clearance under the open market review process and then state aid clearance for the R100 programme, which takes time—that is one of the contributing factors to how long such procurements take.

In the south of Scotland, in total, 99 per cent of the target list of premises will get full fibre. In the central area, some will get FTTC. The vast majority of premises there will get FTTP, but some premises are close enough to a cabinet to get a superfast speed from a FTTC connection. Does that make sense?

**Colin Smyth:** It does, but do you accept that we still have a big group of properties that do not have FTTP? In relation to futureproofing, they might have what we would define as superfast broadband now or soon, but it is not FTTP. In effect, there will be two tiers. The R100 programme will deliver that for people, and the commercial side will deliver it in the centre of Edinburgh, but it will never deliver it in Galashiels, Hawick or places like that. In effect, a big group of people will not have FTTP.

**Paul Wheelhouse:** We must look back at what we are trying to achieve. I remind committee members, although I am sure that they already know this, that broadband is, like all telecoms, a reserved area. The Scottish Government has made a targeted intervention on economic development grounds to try to ensure that everyone gets a superfast connection. In many cases, as I outlined in my statement, we are now able to go further than just providing a superfast connection, so we are using the money in a way that will deliver a very high percentage of FTTP for those customers, but the Government's commitment was to address superfast.

As Robbie McGhee outlined, the UK Government has made a commitment to spend £5 billion on trying to providing gigabit-ready services across the UK. That is the Government that is responsible for telecoms. We would argue that we need to see a fair share of that £5 billion allocated to Scotland. If additional funding comes in from that source, we will of course try to work with UK ministers and support them to make sure that that money is used effectively to try to provide full fibre for customers across Scotland. However, that is not part of the original R100 procurement—it has come subsequently. I hope that it will have the maximum benefit for Scotland. We stand ready to work with UK ministers to try to make sure that it is used as effectively as possible to deliver the best outcomes for those customers who are on,

perhaps, FTTC and do not have an immediate prospect of getting FTTP.

**Colin Smyth:** I am sure that we will have a future debate about how we get to the point of full FTTP, but that can wait for another day.

The original Scottish Government commitment to R100 was for 100 per cent of premises in Scotland to be able to receive superfast broadband by 2020-21. Can you clarify for the record what the timescale is for the south and central lots to get 100 per cent coverage?

**Paul Wheelhouse:** We are setting out that anyone who cannot access superfast broadband by the end of 2021 either commercially, which we have talked about, or via the R100 contracts—I can touch on the timescales for that, too—will be eligible for the aligned intervention.

If a customer wants to have a minimum superfast connection by the end of 2021, they can get one by using the voucher scheme that is in the proposals we are putting forward. That is our way of trying to honour our commitment that the end of 2021 would be the deadline. It also allows for what I believe will be a better outcome, in that a very high share of premises will now get FTTP, rather than only a superfast service, as a result of the money that we put in. In effect, the vast majority of premises in the central and south lots that we can talk about will get a service that is more than 30 times as fast as the European standard for superfast broadband, as a result of that money.

On timing, anyone who requires access to superfast broadband by the end of 2021 will be able to get it. With regard to contract build, we expect delivery in central Scotland to be completed by the end of 2023—that is, quarter 3 of 2023-24. In the south of Scotland, we expect contract build to be completed in the summer of 2024. In the course of the final year, 2024-25, about 1,400 premises will get picked up; the vast majority of that work will have been done by the end of 2023, so only the tail end of that programme will stretch into 2024—about 5 per cent of the build-out in the south of Scotland.

**Colin Smyth:** Realistically, people will go with that option, rather than a voucher scheme. Obviously, those communities will be disappointed that they will have to wait, in some cases, an extra two or three years. What steps is the Government taking to ensure that there will be absolutely no further delays beyond those revised timescales?

**Paul Wheelhouse:** With regard to the contracts, they are not the kind of traditional contracts that would be used to build a bridge or roads, where penalties could be applied. They are state-funded interventions. They enable the contractor to deploy its own infrastructure in areas that are not commercially viable. There are no breach of

contract provisions that we can use to ensure that the contractor meets the deadline.

However, it is relevant to point to the performance in DSSB. The supplier has a big incentive to deliver early, because they do not start receiving income from premises through customers signing up to services until they are fully deployed. The quicker they do it, the quicker they get paid.

That is what happened with DSSB, in which a similar mechanism brought in the contract on time and on budget. We can be pretty confident in the case of south and central Scotland that we have an experienced contractor—BT—that is used to delivering in those areas. BT has a track record of delivery under DSSB. We can be confident that it will want to do it to get the money, and that it will do it effectively and on time.

I hope that that is of some comfort to colleagues. Although it is not the same as a construction contract for a bridge or a motorway or something of that ilk, in which the contract includes breach of contract clauses, there is a big incentive, both reputationally and in terms of being paid, for the operator to deliver on time.

**Colin Smyth:** Is the lack of breach of contract penalties due to a legal stipulation that you cannot do that as a Government, or is it a choice you have made?

**Claire Blake (Scottish Government):** It relates to the nature of the contract, which is that we are not procuring an asset for ourselves. In effect, we are stepping in where the market has failed in order to fill the gap and make the business case viable.

It is not that we have no breach of contract provisions at all; clearly, there are material breach of contract provisions and there are long-stop dates that would allow the contract to be terminated if the contractor sat and did nothing. However, the key incentive in a subsidised contract is that the contractor does not get paid for what they have done until they have done it. They cannot get an income flow until the connection is there, so the biggest incentive in the world—for the contractor to get on and deliver it—is there.

Including provisions with liquidated damages and the kind of things that the committee is getting at would not have added anything, and we would have paid for that privilege. If things like that are included in a contract, we have to pay for them. A tried and tested gap-funded model has worked across the whole country in numerous procurements and contracts of this sort, in which the private sector is incentivised to do what it is asked to do on the timetable that it has.

**Colin Smyth:** Do you mean that contractors do not get paid a penny until they have finished?

**Claire Blake:** They get paid in milestones. They do not get paid for any milestone until they come to us with a receipt proving to us that they have done it. They are out of pocket for that period and their business case stacks up only once they have customers paying money. A customer will not pay money until there is a connection.

**Paul Wheelhouse:** In terms of future analysis of the budget and performance against the budget, payment is in arrears, as Ms Blake has said. You will see a mismatch between deployment on the ground and payment. That was true for DSSB too, where we were paying the contractor in arrears for having delivered. That is the standard approach.

**Mike Rumbles:** When you came to the committee previously, you said:

“To pick up on Mr Rumbles’s point about the political aim, we are absolutely committed to delivering 100 per cent superfast coverage. I can say that because it is not a contractual issue; it is a political issue. The R100 procurement is the main means by which we are doing that, but we also have aligned interventions.”—[*Official Report, Rural Economy and Connectivity Committee*, 30 October 2019; c 17.]

You have just said again to Colin Smyth that, if people are not getting connected commercially, they can get a connection by 2021 with aligned interventions, but actually they cannot. Use of language is very important. You are offering people a voucher from the end of 2021—they are not going to get a connection by the end of 2021.

I am a bit alarmed by the date of 2024-25, which that you have just mentioned in response to Colin Smyth. We have not even mentioned the obvious delays in the north. There are people who have been expecting to get connected by the end of next year; I have told them that, based on the words you have used to us. That is what you said.

**Paul Wheelhouse:** It appears that there is still confusion on that point. Any customer who wants a connection within 2021 will get one. The aligned interventions might be an interim solution while they are waiting for full fibre to be rolled out, but they will get a superfast connection. That is what the Government commitment is, which is what I reiterated at the previous meeting.

**Mike Rumbles:** Maybe that is why I have misunderstood you. I want to clarify this, because, when people in the north-east have contacted me, I have assured them that you have said that they will not just get a voucher but that they will get connected by the end of 2021. Is that correct?

11:45

**Paul Wheelhouse:** Yes. They will be entitled to—

**Mike Rumbles:** Wait a minute—I am not talking about their being entitled to be connected; I am talking about their getting connected.

**Paul Wheelhouse:** It is a demand-led voucher scheme. I would welcome the assistance of colleagues around this table and in the wider Parliament on this matter. When constituents contact you looking for assurances around superfast broadband connectivity by the end of 2021, it would be helpful if—once we have the information that we wish to communicate via yourselves and other routes—you could ensure that they are aware of their ability to draw down a voucher that will grant fund them getting at least an interim solution. For example, if at some point they are going to get an R100 deployment of full fibre or an FTTC connection but they cannot wait for that to happen and they want a connection by the end of 2021, they will be able to get that through the aligned intervention scheme.

**Mike Rumbles:** I know that you are genuinely trying to help.

**Paul Wheelhouse:** I am.

**Mike Rumbles:** So that there is no misunderstanding in the future, can you confirm that a constituent of mine in the north-east who needs to use the aligned intervention scheme does not have to wait until the end of next year to get a voucher and can access the scheme before that?

**Paul Wheelhouse:** They will be able to do that. We hope to launch the voucher scheme by this summer.

**Mike Rumbles:** Excellent. I acknowledge my misunderstanding.

**Paul Wheelhouse:** There is also an issue of communication, and I apologise if we have not communicated the position properly.

Jamie Greene alluded to the fact that other matters might be raised around this, so I will not labour the point. However, I reassure you that we hope to have the voucher scheme operating from this summer, and you can communicate that to your constituents.

**Jamie Greene:** That segues nicely into the issue of aligned interventions. As far as I understand it, there is a group of people who, even with the Government procurement and commercial intervention, will fall between the gaps because they are too far from the cabinet that BT Openreach is contracted to provide or are in an extremely rural area that is too far away to be easily connected to.

I understand that the contract involves BT Openreach simply being given a pot of money to fill in the gaps in order to provide 100 per cent coverage at a minimum speed, which, by default, therefore, is technologically agnostic. Is my understanding correct? Have you contracted BT simply to deliver a minimum speed by whichever means is available to it?

**Paul Wheelhouse:** That is getting into contractual terminology, so I will rely on Claire Blake to answer the question.

**Claire Blake:** The bidders were tasked with taking a pot of money and delivering speeds of 30Mbps to as many premises as they could. To that extent, yes, BT Openreach was asked to provide coverage at a minimum speed. However, with regard to the structure of the contracts and the outcome that we have got, BT Openreach is a commercial operation that wants to put out fibre as far as possible. What we have actually seen is not FTTC connections across the piece; instead, we are predominantly seeing fibre to the premises. That was BT Openreach's solution, and it is what it is being contracted to deliver to us. If it said that it is going to deliver FTTP to a premises, it cannot then change its mind and say that it is downgrading the provision to FTTC.

**Jamie Greene:** So, in other words, we are talking about 100 per cent coverage of all residential and commercial premises, which BT Openreach has signed a contract to deliver and will be able to deliver thanks to what we are spending, as well as additional funding. However, are we saying that there are households or commercial premises that will fall outwith that provision and in relation to which additional Government funds and intervention will be required? How much have you allocated for the aligned interventions scheme? What technologies will be used to deliver provision to those households?

**Paul Wheelhouse:** That is a fair point. The answer is that the £600 million covers the main procurement, so we will need additional resources to deliver the aligned interventions voucher scheme that we will give further details on by the summer. We stand ready to provide that additional funding. Obviously, we continue to have dialogue with UK Government colleagues around their plans for their £5 billion. That might create an opportunity to provide additional revenue or capital funding for the work that needs to be done.

The UK Government has already committed £21 million towards the total—that is the 3.5 per cent that I referred to earlier. Obviously, any additional funding might enhance the quality of the offer that we can make in relation to the aligned interventions for those remaining properties that

have fallen through the R100 procurement and have not been covered by commercial developers.

Take-up in Scotland of the UK Government's rural gigabit voucher scheme is a bit lower than it, or we, would like. In large part, that is because the level of subsidy that is available under the scheme—about £1,500 for residential premises and £3,500 for small and medium-sized enterprises—does not go far enough in some of the more challenging locations.

We have argued that we could use our voucher scheme to add to the UK Government's voucher scheme. I think that that has been received positively so far; further discussion would be needed to enable the money to go further for both of us and deliver a better outcome for the people concerned. We are urging the UK Government to review the levels of subsidy that are available and we stand ready to supplement that funding through our voucher scheme, so that it delivers a future-proofed outcome for all those who are affected. We believe—I hope that you agree—that it needs to be funded appropriately by both Governments.

**Jamie Greene:** I totally understand, and that is a helpful answer.

I return to your Government's commitment to reach 100 per cent of premises and our understanding of the funding. I presume that you have to ask the finance directorate for lots of money to fill in the gaps. Have you allocated any estimated numbers to how much you think the voucher scheme, or any form of aligned intervention, will cost the Government?

Specifically on the voucher scheme, what would happen if the quotation to deliver to a house was an excessive sum of money? We have heard of it costing tens of thousands of pounds to connect the most difficult-to-reach premises. Will they still be covered under the voucher scheme? Will funding be guaranteed to be available to them?

**Paul Wheelhouse:** We are certainly going into this with the intention to try to help every premises, as we reiterated to Mr Rumbles earlier. It is our intention and political ambition to achieve 100 per cent coverage. We—like BT, which is doing detailed survey work on the ground for the central and south areas—do not know exactly what the solution will be in each location.

I have said before that we might need a cocktail of solutions in some parts of the country. For example, in one valley there could be fixed wireless to a number of premises that will not work for those outwith the reach; perhaps relay stations could be put in to carry a signal up a valley, but we would not know until we got on the ground. However, our intention is to try to ensure that everyone gets a solution. That would be greatly

helped if we could add our funding to the UK funding to make sure that it goes as far as possible.

We will try to avoid any sense of an arbitrary cap. I do not want to be overly critical, but the cap for the existing voucher schemes is probably artificially low for the kind of premises that we are talking about. We have made that point gently to UK colleagues. There is an opportunity here to be a bit more realistic and try to make sure that we are going into it with our eyes open.

With regard to the budget, you are quite right. I would not want to call Mr Mackay the finance director—he might take umbrage at that—but he is certainly the finance secretary. He will be aware that, through the budget process, we have put in indicative figures for what we believe is a new funding pressure that will come from the installation of the voucher scheme. The scheme is demand led, so it will depend how many people come forward. We might have to adjust the figures as we go along, but we have started the process. The commitments that we gave in the chamber were cleared with finance colleagues beforehand, so they were aware of, and were comfortable with, the numbers that we put forward.

**Jamie Greene:** I did not hear a number in that answer.

**Paul Wheelhouse:** I do not want to prejudge the budget. We do not have long to wait for it. There will then be numbers for what we are expecting and the reprofiled spend for R100 that takes account of the timescale. I ask members to bear in mind that invoicing is in arrears, so they should not automatically believe that nothing is happening when funding is some way down the line, for the reasons that Claire Blake set out.

**The Convener:** Stewart Stevenson wanted to come in.

**Stewart Stevenson:** I have quite a narrow question about vouchers. One of my colleagues will ask more about the online checker later. Am I correct in understanding that the online checker, when it is available, will enable each individual household and premise to see the predicted date of delivery? Some of the R100 programme dates will be before 2021 and some will be after. Therefore, we would expect that people would be able to see that they need to apply for a voucher to draw it forward in advance of 2021, because their predicted installation date was beyond that.

Related to that—this is not as short a question as I thought that it would be—can only people who have a predicted date post-2021 claim the voucher?

**Paul Wheelhouse:** On the information that will be on the online checker, it is our intention that, for

business and domestic premises, everyone will be able to see whether they will be covered by the R100 programme by the end of 2021. It will not give a precise date for commercial roll-out or say whether that will happen, and it will not, in the case of the south and central lots, give a precise date for when BT will deliver the solutions under the R100 programme. However, the online checker will show whether people are eligible for the voucher scheme, and we will try to keep that bit as simple as possible. Someone who is eligible for the voucher scheme will, I hope, have a single point of contact and be directed to the right support. We do not want to make it too confusing by having different options.

In practice, some individuals will get an interim solution, because they will get a full-fibre or FTTC connection further down the line—as I said, perhaps beyond the end of 2021. If we know that a premises is not covered by the R100 programme, a more substantive solution will be provided through the aligned interventions voucher scheme, which will be flagged to those involved.

Robbie McGhee might want to add to what I have said.

**Robbie McGhee:** Our aim is to integrate the premises-level checker with the voucher information. There is a horrible phrase in my head, and I apologise for using it, but I am thinking about the customer journey. A lot of planning is being done, using website experience, on how people will be signposted, so that the process is as straightforward and seamless as possible.

**The Convener:** I think that Stewart Stevenson is happy for us to move on.

**Stewart Stevenson:** Yes.

**Emma Harper:** I am interested in alternatives to digital or fibre. What technical alternatives can be used to cover the gaps in fibre coverage? Are we talking about wireless delivery from radio masts, satellites or leased lines?

**Paul Wheelhouse:** As I said in response to Jamie Greene, the voucher scheme will be capable of delivering a range of technologies. Fixed wireless access and satellite broadband will have a part to play in the scheme. We aim to maximise the quality of the technological solutions that will be on offer through the voucher scheme. Individual solutions will depend on a range of complex factors, including—as I alluded to in my response to Jamie Greene—geography, topography and proximity to alternatives.

In the past, satellite broadband has had a bad reputation, but the upload and download speeds are improving dramatically. Contracts are now available without data caps, because a big issue has been people running out of data on their

satellite service. Access speeds are also increasing. We are proactively engaging with suppliers of different technologies, including fixed wireless and satellite broadband, to gauge their interest in the voucher scheme, and there has been a lot of proactive contact with us from suppliers who are interested in participating in it.

A range of technologies will be used. In some cases, a fibre-to-the-premises solution might be provided. That would not be outwith the scope of the voucher scheme. It is about finding a cost-effective solution and one that, I hope, is as good as possible within the realms of the rational spending of money in each case.

**Robbie McGhee:** A lot of preparatory scoping work has been done, including lots of spatial analysis of where the premises that will be part of aligned interventions are. We are looking at clustering with a view to determining what might be suitable technology. If premises are within a certain distance of each other, that lends itself to a full-fibre solution. In other cases, fixed wireless might be used. The plan is to do far more proactive supplier engagement, so that we warm up the existing suppliers in Scotland. They might be quite small scale, but voucher funding provides them with an opportunity to extend their networks. The R100 programme resourcing plan includes reference to account managers who will carry out that engagement. The proactive management of the supply chain is important.

12:00

**Emma Harper:** You are saying that the voucher scheme will not exclude alternative technologies.

**Paul Wheelhouse:** Yes. The only test is that those technologies must provide a service of 30Mbps.

**Emma Harper:** My next question was to get that reassurance.

**Paul Wheelhouse:** That speed is an absolute must. The European standard for superfast broadband is a minimum of 30Mbps. The superfast connection through a fibre to the cabinet connection in my local village is, in practice, much better than that—60 to 80Mbps—but we want to ensure that people have at least 30Mbps, which is the qualifying standard for anything that we pay for.

**Maureen Watt:** The voucher scheme is a joined-up process with the UK Government. You said that it will start in the summer; are you confident that discussions with the UK Government about the scheme will be on track for that time?

**Paul Wheelhouse:** I should clarify that we intend to go ahead with the voucher scheme



whether or not we get the support of the UK Government, as we need to provide a solution for those premises in order to honour our commitment. We believe that the best outcome would be to work in collaboration with the UK Government and to have both its funding and our own, in order to provide a more comprehensive solution for those premises that will be more expensive to deliver to. Prior to and since the general election, I have had positive discussions and correspondence with Matt Warman, who is a parliamentary undersecretary at the Department for Digital, Culture, Media and Sport, and with Nicky Morgan, about our desire to collaborate with the UK Government. Both appeared to be positive about that approach and could see the sense in it.

Some discussions on other points are still to go ahead. Using the same voucher scheme platform as that of the UK Government would be advantageous in order to simplify the process and make it administratively as easy as possible. As Robbie McGhee mentioned, the reason for that is not only to make the customer journey as simple as possible but to ensure that the banker arrangements make things as easy as possible for contractors. Both Matt Warman and Nicky Morgan seemed amenable to that and I welcome that positive approach.

We still have mileage to cover. The UK Government is not yet in a position to tell us about its £5 billion programme and we do not know much detail about that. We have sought reassurance that a rival major public procurement will not go on at the same time, which would cause massive confusion. I do not think that that will happen, but we will obviously be unsure about that until we get certainty about the UK Government plans. We want to see the scope of the budget that is being allocated to Scotland, which might influence the ultimate outcome of the quality of service that we can provide for those customers who are outwith the main commercial R100 procurement.

**Maureen Watt:** In the interest of time, I will lump all my questions together. The scheme will open in the summer and be open ended. Are there any eligibility criteria? Can voucher applicants club together to get community broadband, as the Broadband for the Rural North community partnership scheme in north-west England has done? Will that sort of thing be available to people in Scotland?

**Paul Wheelhouse:** In relation to the eligibility criteria, I will repeat my previous point more formally: anyone who cannot access superfast broadband by the end of 2021—they will know that well in advance, to pick up on a point that Mr Rumbles raised—will be eligible for a voucher, regardless of whether a build through an R100

contract eventually reaches them. That is the formal part of the eligibility criteria.

In answer to the second question, we would absolutely be interested in potential customers clustering for a collaborative solution. Robbie McGhee alluded to looking at those premises that would be covered by aligned interventions and seeing whether we can do anything proactively to encourage that. It would be sensible for a community to think, “Hang on here, we could get a better outcome if we all go for one option, perhaps with one supplier.”

**Robbie McGhee:** The nature of planning and delivering broadband networks does not lend itself to individual solutions. If an individual has a voucher and decides that they want a broadband connection, satellite will be all that they will be able to get. The delivery of something that is future proofed relies on demand aggregation, as we have seen—although maybe less so in Scotland than in other parts of the UK. For example, BT’s community fibre partnerships programme has been used effectively to pull in community funding as well as BT funding and vouchers. Such an approach would be absolutely valid, in the same way as we see what is happening as a continuation of an existing voucher platform in many respects. The opportunity would be there for demand aggregation to take place, as it has done elsewhere.

**The Convener:** May I clarify something? I should make clear that I benefit from a wireless line-of-sight system, which seems to work well in my community, but some communities cannot do that and have to rely on satellite, which is probably the only other option. Satellite is vastly more expensive than a land-line connection. If a land-line connection costs X, satellite might cost 2X. I welcome the voucher scheme as good news, but will it take into account what the end user needs to get the R100 commitment that the Government has given them?

**Paul Wheelhouse:** Do you mean in terms of the person’s means and the affordability of the service thereafter informing what solution is used—

**The Convener:** Well, if a satellite connection is going to cost a person who cannot get R100 £70 per calendar month—it could cost that—will the voucher cover the £70 per calendar month?

**Paul Wheelhouse:** I think that recurrent costs will not be covered, as the system is currently constituted. We were discussing this matter in advance of the meeting, because we are aware that there is strong interest in satellite solutions. I might ask Robbie McGhee to give the financial figures, which I cannot recall in great detail from our verbal discussion. The monthly cost of satellite is coming down dramatically, as competition

increases and the technology improves. The value of what people get per month is improving a lot.

**The Convener:** I understand that, but I recall you saying to the committee that people in remote areas would not be forced to pay more than the person in the central belt pays. It appears that that is no longer the case.

**Paul Wheelhouse:** It is the case in terms of the capital cost. What we cannot do—indeed, what we are not allowed to do—is intervene in the monthly payment that the person makes. We do not have a route whereby we can influence that, other than perhaps, as I think I mentioned when I made my statement to the Parliament, by considering parallels in areas such as energy, where there is a social tariff. There might be an option for regulators and the UK Government to consider applying such a tariff across the whole UK.

If I may, because I know that Robbie McGhee has looked at—

**The Convener:** I just seek to clarify that the answer to my question is simply that the voucher scheme that you are offering may not cover the additional costs that will probably be accrued by people who cannot get R100. The voucher will not cover all the costs, although it will go a way towards doing that.

**Paul Wheelhouse:** I might ask Robbie McGhee to back this up: I think that the scope of R100 is such that it funds the infrastructure; we cannot fund the service. If affordability is a serious issue when the solution for a premises is being considered, I hope that the customer will raise the issue and that there will be scope for considering cheaper options. However, R100 covers the infrastructure costs. We are, sadly, not allowed to subsidise—that is a general point about state aid. There is a parallel in the shared rural network for mobile connectivity, which the UK Government supports. The UK Government provides a state-aid approved scheme to subsidise the cost of mobile phone connectivity. However, that is something that the UK Government can do; we cannot do that.

**Robbie McGhee:** We have had extensive consultation with the satellite market to get a handle on price trends. Bigblu Broadband, which is the big wholesale commercial satellite provider at the moment, currently offers an unlimited superfast service with speeds well in excess of 30Mbps for around £49.99 a month. There is downward pressure on cost, as more satellites go up and there is more capacity, so we expect the monthly cost to go down over time. We are having further discussions with wholesale providers to consider whether, if there is greater demand in Scotland as a result of the R100 voucher scheme,

that might flow through to the monthly cost that people pay.

**The Convener:** I hear that. I know that wifi through a land line might cost £28 to £30 per month, and another £20 on top of that will seem like a lot of money to some people who live in rural areas.

Perhaps we can leave that issue, because members have a lot of questions.

**Peter Chapman:** I want to speak about the north bundle. We know that the contract award was held up because of a legal challenge. I realise that there may be little the minister can say, but how is that progressing and when are we likely to see an outcome with a contract signed?

**Paul Wheelhouse:** I am in doubly difficult territory here. I would love to be able to give Mr Chapman the answer that he and his colleagues deserve. The sad truth is that I cannot comment on the north lot while it is subject to legal proceedings. As soon as I can give the committee an update, I will. We want that heard as quickly as possible, as any litigant or respondent to a litigation would, but we cannot influence the Court of Session. That is a matter for the court to decide, based on its workload. The court knows best when it can accommodate that and we have to trust that it will happen soon.

I stress, as most members of the committee cover the north lot area and it is therefore relevant to them, that all the customers who are affected by the legal case will be eligible for the aligned intervention voucher scheme. If there is a consequential delay, which we will know about once we get the online checker for that contract area, they will be eligible for aligned intervention. I reiterate that they can get a superfast connection. Every person, regardless of the lot area they are in, who does not get a connection through R100 by the end of 2021 will get a superfast service through the aligned intervention voucher scheme. I want to reassure people of that.

Although it is disappointing that we face that legal challenge, it should not prevent someone who needs a connection by the end of 2021 from getting one. It may be an interim connection if they are going to get an R100 solution in the long term—and that applies to the north too—but they will get a service nonetheless and, we hope, the longer-term R100 solution thereafter.

**Peter Chapman:** That is very positive, but it seems that you will be inundated with huge numbers, particularly in the north area, given that the whole thing is obviously delayed and we do not know how long for. Do you really think that the aligned intervention scheme can cope with what might happen in the next 18 months or so?

**Paul Wheelhouse:** Robbie McGhee outlined our engagement with different suppliers of alternative solutions such as satellite or fixed wireless broadband. That can really help. We are proactive and we have account managers for those businesses. We have had strong interest already in the voucher scheme even before we have published the detail of it. I am confident that suppliers will be willing to step in.

We cannot say that it will be easy in every case to provide a solution, but we are committed to making that happen. We are reasonably well placed with interest in providing services through the voucher scheme. I am encouraged by that. I will bring Robbie McGhee in to comment on the engagement and interest that we have had from particular suppliers in the north of Scotland.

**Robbie McGhee:** We have a good sense of big and small operators in Scotland through the open-market review process and we have an on-going, structured engagement with them to determine how the planned commercial build is going. We are using that engagement to introduce the concept of vouchers and to see whether there are opportunities for operators to grow their networks organically by utilising that funding. That will increase once further details of the voucher scheme are released. That will help us plan a more managed transition for some of those networks to get bigger.

**Peter Chapman:** The other concern that I have is that people will apply for the voucher scheme and get a system in place that allows them to have at least 30Mbps, but then in a year or two they will have fibre to their premises, which is the best outcome we can get, so you will almost deliver twice. You will deliver something meantime and then you will deliver a better system later. There is a double cost there. I am not complaining about that, but—

**Mike Rumbles:** It is good news.

**Peter Chapman:** I am not complaining about it. However, I realise that we need value for money here—we all need that. I have run a business all my life, and I know that. I recognise that issue. Are you prepared to take that on board?

12:15

**Paul Wheelhouse:** Yes. As I alluded to earlier when responding to Mr Greene, I think, we had to go through the normal processes before making a parliamentary statement, as you would expect, to check the veracity of what we were pledging to do on the voucher scheme. We have been in touch with colleagues in finance, and it has been cleared, with an appropriate route through the process. We have had to make some working assumptions about demand and take-up.

Some people might be quite happy to wait for full fibre, but there will be many customers for whom it is an urgent matter to get it—businesses, people working from home and those who need a broadband connection for other purposes. There may be high demand from those individuals. We made a commitment, and we are trying to honour it—we have had to take that on the chin.

You are quite right, in that having an interim solution through a voucher scheme will not rule someone out of getting the R100 roll-out. In that situation, there could be additional costs for the customers concerned, but that is why it is going beyond the original £600 million budget that Mr Greene mentioned earlier. We are providing top-up funding to ensure that the process happens.

**Jamie Greene:** This question might be of interest to other members, but I will illustrate it with a local example from my area. I am referring to the arbitrary lines that have carved the country up into north, central and south. My understanding is that the Cunninghame North constituency is in both the north and central lots.

**Stewart Stevenson:** South and central.

**Jamie Greene:** Well—south or north and central. Anyway, it has been carved up. Could the minister explain how that decision came about? If someone lives on Arran, they are in one lot, but if they are in Ardrossan, they will be in another, and that might prove a disappointment to islanders, for instance. What can be done to improve outcomes within constituency boundaries?

**Paul Wheelhouse:** That is a fair question. The areas have been decided on the basis of trying to get the combination right, with sufficiently attractive areas so as to attract bidders for the lots. As we have discussed previously, both in the chamber and in the committee, we had strong interest in all three lots right the way through, almost to the end. Ultimately, we ended up with just single bidders for central and south. However, we can have some confidence in how we packaged up the areas, in that we got a bid in each area. Thinking about some of the terrain involved and the challenges with islands such as Arran and Cumbrae in North Ayrshire, I would say that it was not necessarily a given that people would bid to do the work there. We had to get the balance right between the amounts of subsidy for each lot, with a mix of attractive areas to do commercially and areas that would clearly need subsidy to make them viable, in order to get the right package in each area.

All the inhabited islands are in the north lot, and that is why the division has happened as it has in North Ayrshire, with the mainland in one lot and the islands in another. That is to provide a balanced package between the three areas. The

north has much more subsidy than central, which is more suitable for commercial roll-out. Although central therefore has less subsidy, it has attractive areas that commercial operators would like to be in anyway.

As I say, there is a balance between the amounts of subsidy provided for each lot. More money is provided for the south, for similar reasons to those that apply to the north, with some challenging terrain and topography. I hope that we have got the balance right—we have had bids for all three areas. I cannot comment on the north, but we have had a good outcome for the south and central areas. From that point of view, the areas have worked.

**Jamie Greene:** Was the decision to put all the islands in the north lot, which will be the last area to reach 100 per cent, island proofed or impact assessed?

**Paul Wheelhouse:** That decision predates the island community impact assessment tool, which is still in development. I will ask Claire Blake to comment on the structure of the areas. I know that a lot of thought went into getting that right in order to attract commercial interest. Sorry—it might be Robbie McGhee who will answer that point.

**Jamie Greene:** I would be happy to wait.

**Paul Wheelhouse:** That could not have been done at the time with the island community impact assessment tool, but I hope that you will ultimately see that we have a good outcome for islands.

**The Convener:** I am sure that the witnesses could explain that in greater detail, but I would be happy for the committee to receive a letter explaining the point in further detail.

**Paul Wheelhouse:** Absolutely—if that would be helpful.

**The Convener:** The problem is that we are quite short of time, and we have lots of questions.

**Peter Chapman:** I have one final question before we move on. Given the delay in awarding the contract for the north lot, can the minister give us any idea of when R100 will be completed in the north?

**The Convener:** I think that the minister would say that there are all sorts of issues around that question. It is a good try, Mr Chapman, but, in fairness, I will not let you put that question to the minister, because I do not think that he is in a position to answer it, from a legal standpoint.

**Paul Wheelhouse:** I cannot comment, unfortunately. My apologies—I wish that I could, but I cannot.

**Richard Lyle:** R100 contracts differ from the digital Scotland superfast broadband programme

contracts in that they are premises based. When will members be able to view that premises-level data? How future proofed are the contracts in relation to housing that is currently under construction?

**Paul Wheelhouse:** On the first point, for central and south premises, where we have certainty—where we have a contract signed and we are working with BT on its survey work—we should be in a position to have the online checker populated with the data for the R100 contracts and our knowledge about commercial and voucher schemes by the summer of this year. We are aiming to have that done as soon as possible for the north lot. The outcome of the court case will determine which of the two bidders has won the work and will, therefore, have an implication for the pattern of delivery.

For the south and central lots, we certainly hope to make that data available in the summer, and we will do the same for the north lot as soon thereafter as is humanly possible. I hope that that is helpful to members. The data will go down to premises level, as Mr Lyle has suggested, which will allow the precision of knowing about specific premises. That is unlike the DSSB programme, for which the information was published at a postcode-area level and perhaps did not provide the clarity that people needed about whether their own premises would benefit from a roll-out. This online checker will tell people precisely what will happen for their premises.

**Richard Lyle:** Will the contracts be future proofed for future house building?

**Paul Wheelhouse:** The contracts that we have in place are state-aid compliant and can target only the areas of market failure that we know about. Future houses, as they come on stream, will not be picked up by R100. New builds cannot be considered as an area of market failure, because we have to allow time to see whether the market delivers for the newly built premises, so they are not within the scope of the contracts.

We are working proactively with the telecoms industry and the UK Government to address the issue at source, which I hope will ensure that all new homes are built with future-proofed broadband connections included from the start. Taxpayers should not be asked to foot the bill for that by default. BT, Virgin Media and others have already made great strides with developers around ensuring that any and all new builds have full fibre installed wherever possible. Typically, for any development with more than 20 premises, it has almost been a no-brainer, but operators are also prepared to work with smaller developments to look at solutions.

For our part, we have already made provision with regard to digital infrastructure in Scottish planning policy, within the national planning framework, and further legislation relating to new builds is being considered at a UK level. We are supportive of that legislation in principle. We have engaged with the DCMS at official and ministerial levels to understand the implications for devolved policy, if there are any. We would, of course, support the implementation of such legislation during the course of the current UK Parliament.

**Richard Lyle:** I will roll my other questions into one to save time. The committee has previously heard that about 180,000 premises across Scotland are eligible for R100. Is that figure still accurate or can the minister provide an updated figure? Also, can the minister confirm—I think that he mentioned this—the expected timeline for the launch of the online checker?

**Paul Wheelhouse:** On the first point, we believe that there are now approximately 150,000 eligible premises rather than 180,000. That number can be explained by an increase in commercial activity across Scotland, which has been prompted partly by the 10-year rates relief that we have provided in the past year, which is granted on any newly lit fibre. That is double the level across the rest of the UK—it is five years' cover in the rest of the UK and 10 years' cover in Scotland.

That should perhaps be in members' minds next week, when we have the discussion about non-domestic rates and about having a nationally set rates release scheme. I put that point out there for colleagues around the table, to flag up that there is a risk that that relief may be lost, depending on what happens next week. Convener, those comments are made in a light-hearted way, but it is a serious point. We know that the rates relief scheme has been very influential in securing further investment from commercial operators. It is securing inward investment in infrastructure, and that has resulted in a drop in the number of premises from about 180,000 to about 150,000.

I reiterate that the online checker that Mr Lyle referred to will, hopefully, be ready by the summer, with the proviso that the north data may take longer to populate.

**The Convener:** I am just trying to do some time management—I am trying to get as many questions in as I can within the timeframe. I was going to adjust things, but we will go straight to Angus MacDonald's questions. We will keep going for as long as we can, to allow us to complete our other business, but we will have to be flexible about where we get to.

**Angus MacDonald:** I am acutely aware of the time pressure, so I will be as brief as possible.

It is fair to say that gainshare has proven to be a godsend for a number of communities that have been connected earlier than expected through the two tranches of gainshare funding for the DSSB programme: there were 29,000 premises in the first tranche and 7,000 in the second. Is it likely that further funding will be made available for DSSB through the gainshare mechanism?

**Paul Wheelhouse:** As things stand, there is no further prospect of additional accelerated gainshare funding through DSSB contracts. Because the R100 programme is now ramping up, deployment of the DSSB programme will effectively be completed in the first half of this year. We have tried to use gainshare funding to minimise any gaps between the original DSSB programme and the R100 programme kicking in. The DSSB programme will be completed in the first half of this year, and there will be a managed closure of the programme thereafter. That will tackle a number of areas in Scotland.

We can perhaps provide more detail to the committee on that, as I appreciate that there are time constraints today. We can identify some areas where that funding is being targeted in the first half of the year—some of which are relevant to your constituencies.

**Angus MacDonald:** Perhaps you could write to the committee. It would be good to get an explanation of how gainshare is currently being deployed and what criteria are used to decide where the funding is going.

**Paul Wheelhouse:** I will provide that, if I can. It is probably helpful for me to say that the current round of gainshare money is focused primarily on uplifting speeds in areas where premises are already connected to enabling infrastructure—for example, by taking areas with lower speeds up to at least 24 Mbps, which is the UK's superfast standard; by completing builds in postcodes that are currently only partially served by fibre; and by extending existing and planned builds to complete the build in those areas. We have heard about people being frustrated because they see investment in their area and wonder why they have not benefited. The most recent round of gainshare funding will, hopefully, help those communities and will complement R100 delivery. DSSB and R100 teams are working very closely together as we manage the closure of the DSSB programme and ramp up R100 investment.

**The Convener:** Richard Lyle has the next questions.

**Richard Lyle:** Again, I will roll my questions together. Will the monitoring and evaluation plan for the 5G strategy be publicly accessible?

**Paul Wheelhouse:** We are developing that, and we hope to make it publicly available.

**Richard Lyle:** That is all that I need. Will the committee see outputs from the Scottish 5G centre—yes or no?

**Paul Wheelhouse:** The 5G centre is a bit more complex. It is currently advertising for a chief executive. There is a lot more that I could say on 5G if that would be helpful to the committee.

**The Convener:** Minister, it would be helpful if you could write to Mr Lyle with your answers, if that is acceptable to him. Are there any other questions that you would particularly like to pose now, Richard, or would you be happy for the minister to write to you?

**Richard Lyle:** I would be happy with that. I do not have any other questions—I was just trying to be brief.

**The Convener:** Does Jamie Greene have any questions to ask?

12:30

**Jamie Greene:** Given that the issues are quite technical and may require longer answers from the minister, I will wrap them into one question for the benefit of the time that is available. We might then write to the minister if we have additional things to ask, or about any specifics.

My question is about the minister's initial response to the report by the Infrastructure Commission for Scotland, which is very interesting and welcome. The report calls for full fibre to be rolled out across Scotland by 2027. Given the revised timetable for R100, rolling out full fibre across the whole of Scotland sounds something of a challenge. Are you cognisant of that? Is there a positive working relationship with the UK Government—with the civil service, at the very least, if not ministerially—on developments in that area? Will you write to us with more details of how or when that might be achieved?

**Paul Wheelhouse:** We will write in more detail to help on that issue. We certainly welcome the ICS report, which is very positive about the value and the benefit of investing in digital infrastructure.

On your point about the extension of full fibre, the report recognises the Scottish Government's leadership role in digital connectivity, despite its being a reserved matter. The report is clear in its recognition that our investment in R100 will make

"Scotland one of the best connected places anywhere in Europe."

It is critical that R100's acceleration of full-fibre delivery in Scotland, in areas that we have discussed already with Mr Smyth and yourself, will have contributed substantially to UK ministers' ambition of extending full fibre to all. Now, they must deliver the funding that is needed for

Scotland to achieve ubiquitous full-fibre coverage by 2027. As I said earlier to Mr Chapman, the 2027 date is not set in regulatory terms or in statute; it is currently voluntary on the part of companies, including BT. We recognise that the UK Government is committing £5 billion to tackling the issue.

We have a good relationship not just at the official level, and we are trying to build a relationship at the ministerial level. We generally have positive discussions, and I see huge potential for collaboration with UK ministers if we get this right. I am encouraged by the discussions with Matt Warman and Nicky Morgan, and it would be helpful now to have clarity about the funding that is to come and then to have discussions about how to allocate it.

**The Convener:** Minister, other members wanted to ask different questions, but they have agreed that we will write to you for a response. More detail may be required in response to the later questions that were asked, which the clerks will write to your office about.

I thank you and your team for coming along today. I apologise that the discussion has been slightly rushed, but this morning's timings seem to have concertina-ed and I do not seem to have managed the time as effectively as I should have—for which I apologise. Rather than suspend the meeting, I ask you to depart quietly while we continue with other matters.

**Paul Wheelhouse:** Thank you, convener and colleagues.

## Direct Payments to Farmers (Legislative Continuity) Bill 2020

12:33

**The Convener:** Item 3 is the Direct Payments to Farmers (Legislative Continuity) Bill 2020. I remind members of my entry in the register of members' interests in that I am a partner in a farm.

**Stewart Stevenson:** I am a part-owner of a very small registered agricultural holding from which I derive no income.

**Peter Chapman:** I am a farmer in a farming business. I am not sure whether I will comment on this item, but I make that declaration anyway.

**The Convener:** We have received a consent notification in relation to one UK statutory instrument, as detailed on the agenda. The instrument is being laid in the UK Parliament in relation to the Direct Payments to Farmers (Legislative Continuity) Bill 2020. Does any member wish to comment?

**John Finnie:** My remarks are about the paper on greening. I would be keen for us to clarify with the Scottish Government whether there was just an imprecise use of language or whether there is an intended change of policy on that important issue.

**The Convener:** When we write to the Scottish Government for clarification on the point that John Finnie has made, I wonder whether we should highlight that our concern is just about governance and the reporting of the instruments, without laying the blame on anyone in particular. Dealing with the instrument puts the committee under a huge amount of pressure, and it might be good to clarify with the Government where this came from.

**Maureen Watt:** I happened to be watching Westminster parliamentary business yesterday, and it was only yesterday afternoon that the Direct Payments to Farmers (Legislative Continuity) Bill 2020 was passed. The whole thing is rushed—not just the work of the Scottish Government—which is a result of Westminster not knowing what it is doing.

**The Convener:** I was absolutely not pointing the finger at the Scottish Government; it was a general point. The committee is under quite a lot of pressure to get such things turned around quickly. It might be worth pointing that out to the Government, and it can respond as it sees fit. If the committee is not happy to do that, we will just raise the point that John Finnie made.

**John Finnie:** I am happy for us to do that. As Maureen Watt said, there is no dubiety about where the responsibility lies: it lies with an

inefficient and ineffective UK Government putting demands on the Scottish Government, which, in turn, puts demands on our clerks and our time. That is not in doubt—it is a simple matter of fact.

**Richard Lyle:** When we write, we should perhaps ask what exactly the problem is. I agree with the comments of Maureen Watt and John Finnie. Funnily enough, I watched that debate yesterday, too.

**The Convener:** When we raise the point that John Finnie raised, we can also raise the matter of the procedure and why this has happened. It would be useful for us to know how it works, for the future. Is the committee content to do that?

**Members indicated agreement.**

12:37

*Meeting continued in private until 13:07.*





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