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Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 18 June 2014

Session 4

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
19th Meeting 2014, Session 4

CONVENER

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

DEPUTY CONVENER

*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

COMMITTEE MEMBERS

*Jim Eadie (Edinburgh Southern) (SNP)
*Mary Fee (West Scotland) (Lab)
*Mark Griffin (Central Scotland) (Lab)
*Alex Johnstone (North East Scotland) (Con)
Gordon MacDonald (Edinburgh Pentlands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Cook (Scottish Government)
Sharon Fairweather (Scottish Government)
James Kelly (Rutherglen) (Lab)
John Nicholls (Scottish Government)
Gil Paterson (Clydebank and Milngavie) (SNP) (Committee Substitute)
John Scott (Ayr) (Con)
Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 18 June 2014

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Maureen Watt): Good morning and welcome to the 19th meeting in 2014 of the Infrastructure and Capital Investment Committee. I remind everyone to switch off their mobile phones, as they affect the broadcasting system. I have received apologies from Gordon MacDonald, and Gil Paterson is in attendance as a committee substitute.

Agenda item 1 is a decision on taking business in private. I seek the committee's agreement to take in private item 4, to allow the committee to consider its approach to the scrutiny of the Scottish Government's draft budget 2015-16. Is that agreed?

Members *indicated agreement.*

Broadband

10:00

The Convener: Agenda item 2 is an update on broadband infrastructure from the Cabinet Secretary for Infrastructure, Investment and Cities. I welcome Nicola Sturgeon, the cabinet secretary, and Colin Cook, the deputy director for digital strategy and programmes in the Scottish Government. Would you like to make an opening statement, cabinet secretary?

The Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities (Nicola Sturgeon): Thank you, convener, and I thank the committee for inviting me to provide an update on progress in providing Scotland with a world-class digital infrastructure.

In July 2013, shortly after my previous update to the committee on the topic, the Government signed the second of two contracts that comprise the digital Scotland superfast broadband programme, which was previously called the step change programme. That contract covers the rest of Scotland and sits alongside a contract for the Highlands and Islands that was signed last March by Highlands and Islands Enterprise.

Both projects are making very good progress. The first cabinet in the Highlands and Islands project went live early this year in Buckie in Moray, and by the end of the first quarter around 8,000 homes and businesses across Highland and Moray were able to access services. That is significantly more than BT's contractual commitment for this stage. The first publicly funded cabinet in the rest of Scotland project area went live in April in the Aberdeenshire village of Kirkton of Skene. Members will be aware that a dedicated website—www.scotlandsuperfast.com— has been established to ensure that the public are able to access information about the programme's roll-out and coverage. All of that represents a major step towards our digital ambitions, and we remain focused on achieving our target of 85 per cent of premises having access to fibre broadband by 2015-16 and 95 per cent by 2017-18.

We have established community broadband Scotland to support those communities that are least likely to get next-generation access through the superfast broadband programme. Community broadband Scotland aims to transform the way in which communities live, work and learn by empowering them to acquire the assets that they need to access faster broadband. It is making steady progress. To date, around 650 premises have been connected in Applecross, Locheil and Blairlogie. Encouragingly, the programme has engaged with a further 67 communities across

Scotland, 32 of which have developed a broadband solution and are in the process of formally applying for capital grant assistance. We remain committed to supporting rural communities in developing and delivering those solutions through community broadband Scotland because we want to ensure that no communities are left behind.

One small but significant example is worth mentioning to demonstrate the significance of connectivity in our more remote communities. We have supported a project on the Isle of Coll in which, through a partnership between the Government, Development Coll and Vodafone, the island will get good-quality 2G, 3G and 4G mobile phone coverage for the first time. It will also test the concept of an alternative model of community ownership of a mobile mast in an area that has not previously been seen as commercially viable by mobile operators. Construction of the phone mast has already commenced and the project is expected to be operational this summer. That is just one example of the innovative approaches that are being taken in some harder-to-reach areas.

Since I last spoke to the committee, we have begun to make significant progress in securing the long-term benefits of the investment in infrastructure. The digital participation strategy, which was published on 24 April, sets out a framework for action in communities and workplaces up and down the country that will seek to use the power of the internet to break down inequalities and help people become more confident and creative users of digital technology. We have appointed a director of digital participation at the Scottish Council for Voluntary Organisations to lead some of that work, and one of his key tasks will be to promote the digital participation charter, which is intended to act as something of a matchmaker between organisations that recognise the need for digital inclusion and want to use their expertise to play their part, and community groups that need support to help people get online.

On the digital economy, Skills Development Scotland has published the skills investment plan for the information and communication technology and digital technologies sector, and the First Minister has announced investment of an additional £6.6 million to deliver many of the plan's key recommendations. The plan sets out a series of specific actions that are designed to meet some of the challenges that we face through a partnership with Scottish businesses. There will be an industry-led skills academy, 750 work placements for further and higher education students by 2016 and support for employer engagement with our schools.

We have made and continue to make significant progress in moving towards the world-class vision for 2020 that we have set ourselves. We are doing that through a suite of interlinked workstreams. We are very much on the front foot in delivering the vision, but a lot of hard work is being done and remains to be done. I am confident that we are on track to meet the 2020 vision that we have set.

With those opening comments—I was going to say that they were brief, but they were not so brief—I am happy to take questions.

The Convener: Thank you. Adam Ingram will start the questioning.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): How far away are we from meeting our target of 85 per cent of premises having access by 2015?

Nicola Sturgeon: We are on track to meet that. The information that I gave about the Highlands and Islands suggests that, at this stage of the game, the project is slightly ahead of schedule. As I have said, the first cabinet in the Highlands and Islands went live in February and BT has surpassed its first contractual commitment to deal with just under 5,000 premises in the first quarter. More than 10,000 premises now have access, with at least 5,000 more expected by the end of the month.

In the rest of Scotland, the first cabinet went live in April, and to date, more than 140 exchange locations have been announced within the first two phases. As the rest of Scotland project commenced later, we do not yet have the same level of connections information as we have for the Highlands and Islands. We are currently verifying some of the early survey information, and a report on the first quarter's progress is expected at the end of the month. This was always intended to be a rolling programme, and we are on track with it. I mentioned the website that has been set up, which gives the public access to roll-out information. As we proceed with the project in the months ahead, the website will be updated regularly, and the information will become more detailed and granular.

Adam Ingram: With regard to your overview of progress, do you or your civil servants have a detailed schedule that lays out the milestones along the way to reaching the 85 per cent target? Just for my information, when in 2015 will the target be met?

Nicola Sturgeon: I will let Colin Cook answer that.

Colin Cook (Scottish Government): The first target that we set, which was to give access to 85 per cent of premises in Scotland, will be met at the end of 2015. We have a detailed milestone plan

for both projects, which as the cabinet secretary has explained are in the Highlands and Islands and the rest of Scotland. Many of the premises will have their access enabled in 2015. With the Highlands and Islands contract, there will be a major investment over this summer in subsea cabling to the islands. That needs to be put in place; after all, the trunk of the tree, rather than the twigs and branches, needs to be in place for the fibre to work. That is one reason for the slow ramp-up. However, as the cabinet secretary said, we are on track and, in the Highlands and Islands, we are marginally ahead of schedule.

Adam Ingram: When I ask about progress in my constituency and when exchanges will be upgraded, I get very vague answers. For example, I am told by the BT people that many exchanges are under evaluation. When constituents from various parts of my constituency ask me about the matter, I am unable to give them hard and fast information. That lack of information can be a constraint on communities progressing alternatives or making a bid to community broadband Scotland. Can we do something to ensure that things are clarified?

Nicola Sturgeon: We are trying to be as transparent as possible and ensure that the information that is provided for public access is as full as possible. We want to ensure that, by the time communities are given detailed information on roll-out and timescale, the work has been done to ensure that the information is reliable. We have to strike a balance between getting as much information out as quickly as possible and taking a bit of time to ensure that the work has been done to inform properly the roll-out schedule and that communities get information that they can rely on. As I have said, the public can access the website, and the information on it will become more detailed and granular the further we get into the project. Our commitment is to be as open and transparent as possible in that regard.

To put some of these issues in context, I point out that the projects in the Highlands and Islands and the rest of Scotland are contracted to provide next-generation broadband access to the parts of Scotland where, if it had been left to commercial deployment, that work would not be happening at all. In a sense, we are filling in the gaps where the market simply will not go.

If it were not for those contracts, which are being delivered with public funding, we would have a commercial roll-out that would reach only about two thirds of Scotland. I appreciate that communities want as much information as possible as quickly as possible, and we are determined to deliver that. However, it is important to understand the context and purpose of the project. This massive public sector investment is being made to ensure that communities that would not be catered for by the market are not left behind.

Adam Ingram: I appreciate that, cabinet secretary, but as a constituency MSP, I am concerned that some of my area might be in the 15 per cent that will not be covered. I need to know that in order to help local communities if they want to start making alternative plans.

Nicola Sturgeon: Absolutely, but you need to know that when the information is reliable. There is no point in being told right now that a particular community will not be included when there is a prospect that it might be, or vice versa. There is a balance to be struck between having speedy information, which we as politicians would like, and having reliable information. It is important that we get that balance right.

I must stress that we are operating on the basis that we want no community to be left behind. That is why we are investing in community broadband Scotland, and why there is a range of other workstreams relating to the world-class digital ambition vision. We will no doubt come on to some of those issues later. As we go through the programme, we are looking ahead at the quality and capacity of the network and infrastructure that we are putting in place to ensure that it serves Scotland well for many years to come.

Colin Cook: There are a number of variables, particularly with regard to surveying, that we will not know about until quite late in the process. Another factor is that more money is coming on stream, which, if we choose to invest it in this way, might allow the BT project to go to areas that were not originally on the schedule.

There are protocols in place for the work that is going on between the programme team that is leading on the BT contract and the team that is leading community broadband Scotland. Where the two programmes might butt up against each other, the protocols explore how far the BT contract is likely to go and define the areas on which community broadband Scotland can concentrate. It has taken some time for the protocols to be put in place, but they are now working.

Adam Ingram: I can follow up on that matter.

With regard to community broadband Scotland, the cabinet secretary said that 67 projects have been signed off.

Nicola Sturgeon: No. I said that we are working with 67 communities, not that 67 projects have been signed off.

10:15

Adam Ingram: Okay. Again, I am being a bit parochial, but I am looking for some projects in the south-west of Scotland. Most of the projects that I have heard about are in the Highlands and Islands, but we have our own peripheral and remote areas in the south-west. The rural Ayrshire hinterland, for example, needs some investment. Where are we at with community broadband Scotland? How well is the rest of Scotland being covered by the project?

Nicola Sturgeon: In case I inadvertently gave anyone the wrong impression in my opening statement—although I do not think that I did—I should for clarity advise the committee that community broadband Scotland is actively engaged with 67 communities throughout Scotland, all of which are at different stages in the project development process. Of those 67, 32 are at the formal application stage for capital grant assistance, and the others are at an earlier stage.

I do not have a list of the 67 communities in front of me, but I am happy to send Adam Ingram details of any projects in his area. Some of the impetus for the work comes from communities themselves getting in touch with community broadband Scotland to investigate whether there is potential in their area. I am happy to provide the contact details for community broadband Scotland to ensure that, if the communities that Adam Ingram represents want to get in touch, they know how to go about doing so.

Adam Ingram: Thank you very much, cabinet secretary.

I will move on and ask you to comment on the concerns that were raised by the Royal Society of Edinburgh, which essentially said that it is hard to see how current plans will enable us to reach the 85 to 95 per cent target, particularly with regard to delivering superfast speeds to 95 per cent of Scottish households and businesses by 2017. Can we get some assurances from you today that we are still on track to deliver on that target?

Nicola Sturgeon: I have given those assurances in my update on the superfast broadband programme.

The research to which you refer is a piece of work that two professors at the University of Edinburgh have produced for the RSE. As one would expect, Government officials have looked very carefully at that research and its conclusions and assertions. We think that the modelling that it uses is based on some incorrect assumptions and that the analysis misrepresents some key aspect of our policy, targets and programme measurements.

It might be helpful if I summarise the situation. The research makes three key assertions, and we contest each of them. First, it asserts that the programme will not deliver on its targets. As I have indicated in my previous answers, the programme's current deployment and forward planning indicates that the final deployed infrastructure will exceed our targets. We are confident, and I offer the reassurance that you are looking for that we will achieve the levels of coverage that we are contracted to achieve. As I indicated, the early roll-out indicates an increase in the contracted number of premises.

The second assertion is that we have no plans for the final 20 per cent. First, we do not agree that there will be a final 20 per cent—the programme is going to deliver significantly beyond 80 per cent coverage—and, as I have outlined, we have established community broadband Scotland for the most hard-to-reach areas. As we discussed, it is intended to work with communities that will not be covered in our main programmes to find solutions that will be fit for their purposes.

Colin Cook mentioned some extra money, which is the £21 million that has recently been allocated to Scotland as part of the superfast extension programme. That money will be match funded by the Scottish Government. We are still taking decisions on how to target that investment, but we will seek to use it to extend the reach of our programmes even further.

The third assertion that the research makes concerns compliance with state aid requirements on speed or transparency. This is a bit technical so forgive me for it in advance, but the state aid ratified next-generation broadband speed for the programme is 24 megabits per second and above; the research states that it is 30 megabits per second or above. That fact alone—that discrepancy—will, in itself, increase the number of premises that will receive the required speed.

We are fairly confident in our projections and the assumptions that underpin our programme in a number of key areas. I am not saying that it did this deliberately, but we feel confident that the research has misrepresented some of the key aspects of what we are doing.

Colin Cook: The Royal Society of Edinburgh's report—of which we were actually one of the co-funders—has made a huge and invaluable contribution to digital participation, which was the report's main thrust.

What Professor Fourman and Professor Buneman have done is to examine publicly available information—there is no secret about it— on the performance of copper as a vehicle for delivering broadband. They raised questions, which everybody knows about, about how the

further away from the fibre one is, the more the speed degrades. We have known that from the beginning.

We have built into the contract an innovation fund that allows us to find new and better ways of improving the performance of copper and we are bringing on new technologies, such as—at the risk of getting technical again—one called fibre to the remote node, which will change the infrastructure that will be put into the ground and change some of the assumptions. Of course, that information is not yet publicly available because we are working through the best ways in which to deploy the technology.

Some of the assumptions that underpin the evidence will change. That is why we are confident that we will deliver on the targets that we have published.

Adam Ingram: Thank you very much for that comprehensive answer.

In programme 2 of "Scotland's Digital Future—Infrastructure Action Plan", it was stated that a

"full plan outlining the options for delivering"

the Scottish Government's

"world-class ambition"

would be developed by December 2012. We understand that that has not been done, but that in its place the Scotland's digital dialogue has been developed to help the Government

"communicate and refine"

its

"plans to achieve that vision".

Will the cabinet secretary comment on the reasons for that decision? Will she explain how the Government plans use the data to inform its future plans and when it expects to outline them?

Nicola Sturgeon: In early 2013, as the committee is probably aware, we published a report called "Digital Scotland 2020: Achieving World-Class digital infrastructure: a final report to the Scottish Government". That research helped to inform the 2020 vision that we set out.

We did not publish a full plan at that time, as you rightly say. That was a deliberate decision. We decided at that point that it would be more productive and more beneficial to encourage more productive stakeholder engagement and that we would get greater long-term buy-in from that if we set about consulting and trying to achieve commitment early on in the process rather than presenting stakeholders with a final plan on a take-it-or-leave-it basis.

That is why we went down the digital dialogue route. It was deliberately established to get stakeholders' input and views on the kind of world-class digital Scotland that they want to see by 2020, and it was designed to stimulate debate on the options for getting there, which is obviously important.

On how we are moving forward on that, we recently appointed the Scottish Futures Trust to lead the world-class infrastructure workstream. It is clear to us that we need to have a developed and detailed understanding of how far current projects will take us to delivering the infrastructure elements of the 2020 vision. We need to understand what the gaps are and then how we will set about addressing them.

Key to all that is an assessment of the financing and delivery structures that would allow the public sector to stimulate the market and do so in a way that is more sustainable than the gap-funding approach that we take now. That could involve joint ventures, public-private partnerships or financial instruments such as project bonds, which the European Commission often favours.

The intention is that the SFT and the Scottish Government will by next year have developed a route map, which will set out the infrastructure requirements to achieve the 2020 vision and the commercial options for delivering on those requirements. The work is under way and discussion is on-going with key partners, including those in the telecoms and financial sectors.

We decided that a better way to proceed was to take almost a bottom-up approach of having dialogue to inform the vision, from which detailed work will flow on the often challenging practicalities of delivering the vision. That will result in the route map next year that I have spoken about.

Adam Ingram: I look forward to that.

Mark Griffin (Central Scotland) (Lab): In his response to the committee's report on the third national planning framework, the Minister for Local Government and Planning said that the impacts of the digital Scotland superfast broadband programme will be most significant in rural areas, although some semi-rural and suburban areas will also benefit. Further to Adam Ingram's questions, how far along is the Government in identifying the semi-rural and suburban areas that will not benefit from commercial roll-out or the Government-sponsored improvement programme? When will communities be given final notice of whether they will be covered?

Nicola Sturgeon: Your final question relates to answers that we gave to Adam Ingram about the work that requires to be done, such as complex surveying work, and about the variables that are at play. The information that is provided about the communities that the programme will and will not

cover must be reliable. I repeat that the website provides as much detailed information as possible and is giving communities more and more granular information.

As for your first question, I have read the response from the planning minister. He is right to say that the impact of the programmes will be more pronounced in rural areas, but I think—in fact, I know—that it would be a mistake for anybody to describe those programmes as specifically rural. The superfast broadband programme's purpose is to improve coverage across all of Scotland, including rural, semi-rural, suburban and urban areas. The connectivity targets that we have set relate to all premises in Scotland, regardless of where they are.

This work should not be seen as a rural programme from which non-rural areas will not benefit. The investment even in perhaps the most urban part of Scotland—Glasgow, which is the city that I represent—will bring significant coverage improvements in comparison with what would exist in Glasgow if coverage was left solely to commercial deployment. As a result of the programmes, Glasgow will have 97.9 per cent coverage by 2017. If coverage was left to commercial roll-out only, the figure would be only 75.5 per cent.

The programme is benefiting all of Scotland but, for obvious reasons, some of the most significant impacts will be in rural areas, because that is where the starting point is lowest and where the challenges of commercial roll-out are most acute.

Mark Griffin: You pointed out that, through commercial roll-out and the Government-assisted programme, Glasgow will have 97.9 per cent coverage. What will coverage be in other regions? Will any programmes other than community broadband Scotland help the last 2.1 per cent in Glasgow—the figure varies across Scotland— to access superfast broadband?

10:30

Nicola Sturgeon: I am happy to provide the committee with any information that I can. I can have a look after the meeting to see whether there are comparable figures for other parts of the country that we are able to give. Some of that information will be dependent on some of the work that is still under way. As I said, we are going to be as transparent as possible around all this work, so I am certainly happy to see whether we can provide comparable figures for other parts of Scotland.

Many of the exchanges that have already been announced in the programme are in semi-rural, suburban and urban areas—Aberdeen city, Dumfries, Glenrothes, Dingwall, Perth, Ayr, East Kilbride and Stirling are just some of them—which underlines the point that it is not just a rural-focused programme.

Your question about how we will cater for the percentage that will not be covered is a good one. Community broadband Scotland is the key part of the programme that is designed to do that. I am sure that the committee has the information, but I am happy to provide the information that I said I would provide to Adam Ingram—about how communities can engage with community broadband Scotland—to every member of the committee.

I mentioned the extra £21 million, which is a result of the extension programme. That will give us a bit more flexibility to look at some of the areas that, without that extra money, might not have been possible to reach within the programme. The world-class infrastructure programme that I have just spoken about, which the SFT is now leading, is able to look at where some of the gaps will be over the next number of years.

I am not going to sit here and go into all the technicalities of some of the challenges. We all know that Scotland is a country where one in five of our population lives in rural and remote communities. The Highlands and Islands project and the subsea cabling that is required for that is perhaps one of the most complex programmes of its type anywhere. It is challenging, technical work but the clear objective is that we do not want any community to be left behind, so we need to find innovative ways of providing broadband access, even if people happen to live in a very far-flung part of the country.

Colin Cook: The project has always been seen as a partnership between national and local government. Many local authorities have invested additional money into the programme to ensure that their local priorities are met, so there is definitely available a breakdown of the likely coverage that will be achieved in each local authority area, which we are happy to provide.

Mark Griffin: Finally, in discussions that we have had with the Minister for Local Government and Planning, we have spoken about how broadband connectivity could be improved through the planning process, when new developments come on line. Has there been any assessment of the provision of broadband connectivity in new housing developments and whether those new housing developments are adding to the work that has to be done instead of being a solution through providing broadband connectivity as standard?

Nicola Sturgeon: You are absolutely right to point to the important connections between the work that we are doing here and the planning system. You are certainly right to talk about the

importance of making sure—as we have—that in new housing developments the infrastructure is built in from the word go, so that we do not have to go back later and put it in.

It has been identified through the Scottish Government's building standards division that new housing developments are now being provided with broadband cabling and ducting at the outset of the developments as a matter of course. In some cases—with BT Openreach, for example—the broadband network is designed for the developers. The equipment is provided, the developers install it and they are then reimbursed after installation. That is all happening in new developments as a matter of course.

As you will be aware, how the planning system supports digital connectivity more widely has been one of the considerations in the review of the Scottish planning policy and national planning framework 3. The new versions of those documents are about to be published in the very near future—next week, I think. Beyond that, we are implementing additional permitted development rights to favour the deployment of telecoms infrastructure, which would cover both fixed line and mobile. As you will be aware, proposals on that are currently before Parliament. They are due to come into force at the end of June.

On all those key areas, the close relationship between what we are trying to achieve and making sure that the planning system is aligned to help us to achieve it is good work in progress.

Gil Paterson (Clydebank and Milngavie) (SNP): Cabinet secretary, in your opening statement and in your evidence so far, you have made a lot of reference to the hard-to-reach areas. You have answered most of what I was going to ask you, but I wondered whether there are any particular technical blocks in the way and challenges that are still to be overcome to roll out the programme throughout Scotland.

Nicola Sturgeon: I will let Colin Cook kick off on the technicalities, and then I will add something on the less technical stuff.

Colin Cook: There are many technical challenges, but most of them relate to geography, distance and the requirement for fibre to be laid across vast tracts of ground, some of which are not overly amenable to being dug up.

Other technologies are available. We are exploring them and we hope to make announcements about the use of such technologies. Community broadband Scotland is exploring the use of other technologies in areas where fibre is not appropriate. However, our starting assumption is that we will take fibre as far as we possibly can because we think that it

provides the best infrastructure on which to build future world-class connectivity.

Nicola Sturgeon: Our demonstrating digital programme is also a good illustration of the work that we are doing. We have planned pilots around that, the purpose of which is to test new delivery services that could extend mobile services. In my opening remarks, I talked about the work on the Isle of Coll as the key example of that.

Yes, there are some significant challenges—that just comes with the terrain in Scotland—but there is also some quite innovative thinking, testing and piloting to find the best ways of overcoming them.

Gil Paterson: I get the idea from the reaction to it that my question was a bit of an understatement about challenges for Scotland and the terrain.

Nicola Sturgeon: Yes.

Gil Paterson: That leads on to another question on hard-to-reach areas.

In his oral evidence to the committee, Robert Madelin from the European Commission described the communication infrastructure as

"a utility, and ... a crucial public good".—[*Official Report, Infrastructure and Capital Investment Committee*, 7 May 2014; c 2986.]

Does the cabinet secretary agree with that description? If so, how does it sit with the fact that some Scottish residents will have to purchase special satellite equipment to have access to broadband services? In relation to the previous question about how challenging some areas will be for us, perhaps it will be impossible to provide the service other than through satellite.

Nicola Sturgeon: At the risk of sounding as if I am trying to butter up the committee—which is never a bad idea—I met Robert Madelin just after he had been to give evidence to the committee and he was incredibly complimentary about how well informed members were about some of the technical issues. I pass on that praise in the hope that you will be nice to me for the rest of this evidence-taking session.

I broadly concur with Robert Madelin's description of digital communication infrastructure as a utility. I discussed some of that with him. From our own experience of how we live our lives these days, we all know that it is perhaps a slight exaggeration, but not a huge one, to say that the ability to get online and connect to the internet is as crucial as the supply of gas and electricity to our houses. Yes, we need to regard that infrastructure as a utility, and that agreement—that broad concurrence with his description—is reflected in some of our vision and the documents that underpin what we are trying to do.

The investment that we are making in the superfast broadband programme, the commercial roll-out and some of the work that has been done on mobile connectivity are all part of trying to achieve the progress and improvement that would allow us to live up to that objective of the provision of those services being just as important as the provision of other utilities.

Fibre is very much the key delivery technology, although it is not the only delivery technology. There will continue to be others, including satellite, mobile and wireless technologies, which will all have their parts to play, but fibre is absolutely key to the programmes that we are involved in.

Overall, I agree with Robert Madelin. The work that he is doing in a European Commission context is potentially very helpful in ensuring that we are best equipped to deliver what we are trying to deliver in Scotland.

Gil Paterson: Given that the funding streams are there—I would regard them as a general population subsidy—vast numbers of the population will benefit from the investment that is leading to the infrastructure being put in place. Somewhere down the line, might the Government need to think about areas in Scotland—indeed, this applies to the European Commission in relation to areas throughout Europe—where it will be impossible to deliver that infrastructure other than through one-house solutions, the costs of which might be prohibitive? Might some consideration be given to individual subsidy at some point, albeit not at this time? Is that on the radar? Perhaps radar is old fashioned compared with the technology that we are talking about, although I do not think so.

Nicola Sturgeon: I will let Colin Cook add something here if he wants to. We have to be prepared to think outside the box, to use that horrible cliché. It will become increasingly unacceptable in our society for people not to have decent access to digital services. That is a fact of life. We will have to continue to think about how we reach everybody, regardless of how far flung they are.

On the European element of your question, we obviously have to be compliant with state aid rules and regulations. Although it is more complicated than this, in broad terms, the delivery of the superfast broadband programme is very much geared towards those areas where the market will not go. We cannot use the subsidy to deliver that programme in areas that would otherwise be catered for by commercial deployment.

There is a continuing debate in the European Union about the use of structural funds in the next programme and the extent to which they can be used for digital infrastructure. We are very much of the view that using them in that way should be possible, but that is still the subject of discussion.

We have to be as innovative and creative as we can be to deliver what we seek to deliver, which is for everybody to have access to the technology that those of us who live in urban areas increasingly take for granted.

Colin Cook: There is a very pronounced hockey-stick effect when it comes to the cost per premises as one gets beyond the low 90s in relation to the percentage of coverage. We monitor that under the roll-out programmes that we are currently delivering, and we consider the cost per premises. Different types of technology are more appropriate at certain levels.

On the subject of individual subsidy, a programme that provides businesses with a subsidy to get online for the first time is already operating, or is at least available, in Edinburgh, Aberdeen and Perth. Such things are within the group of options that are available to us.

Gil Paterson: I am very much a townie, but I have spent quite a lot of my life, from my youth until I was quite old, climbing all over Scotland. I am conscious of the benefit of the technology to community schools, post offices and such places. It is new, and we need to measure its value to the community and its effect on young families staying on in rural areas. We should consider the real value of its provision to the economy overall.

Nicola Sturgeon: I could not agree more. I used to be the Cabinet Secretary for Health and Wellbeing, as you know, and we would often discuss the sustainability of local communities being very disproportionately impacted by decisions around local general practice services, pharmacy services or whatever.

The same is true for digital infrastructure. Increasingly, whether we like it or not, it is a fact of life that people will expect to have access to digital infrastructure so that they can access services digitally and live their lives the way that the rest of us do. Therefore, the issue is closely linked to the future sustainability and health of some of our more rural communities. We absolutely have to measure the cost of the investment versus the cost of not investing in those areas. Your point is an important one.

10:45

The Convener: I think that Alex Johnstone has a question.

Alex Johnstone (North East Scotland) (Con): Yes—before we leave the issue of connectivity. I am never one to pass up the opportunity to raise a personal problem, although that is not really what I am doing.

Nicola Sturgeon: I hope that I can help.

Alex Johnstone: Superfast broadband arrived on my doorstep a year ago in a blaze of publicity—

Nicola Sturgeon: Literally on your doorstep?

Alex Johnstone: Not quite—that is the problem. When I tried to get the service connected, I was told that I could not have it because I am too close to the exchange. Apparently, I am connected directly to the exchange rather than through a cabinet. A lot of businesses in my immediate area are affected, including a local newspaper, a solicitor and an architect—the type of businesses that could benefit from the service. What is the prospect for such small areas in the centre of areas that have already been supplied with superfast broadband?

Nicola Sturgeon: After I have assured you that the fact that you were not able to get it was not deliberate—

Alex Johnstone: I am sure that it was not.

Nicola Sturgeon: It was not because you asked me a hard question the last time I was at the committee or anything like that.

I will see if Colin Cook can have a go at the technicalities. If we cannot completely answer the question from a technical perspective, I am happy to come back to you on it.

Alex Johnstone: It is not just a technical issue—the more important point is where it fits in in the structure.

Nicola Sturgeon: Okay—I understand.

Colin Cook: I am afraid that I am not familiar with Mr Johnstone's living arrangements, so I do not know precisely where he is referring to. There are some such issues. Mr Johnstone will have been connected as part of the commercial roll-out, so the superfast broadband project might address the particular issue for his area, but I do not know. With permission, we should just come back with information on the precise area.

Nicola Sturgeon: If Alex Johnstone can give us the detail of the precise area that he is talking about—although not his personal address—we will come back with an explanation of the situation and what the likely solutions are in the overall context.

Alex Johnstone: Is it likely to be a widespread problem? Will it happen in other places?

Nicola Sturgeon: We would need to understand exactly what the problem is before I can answer that.

Colin Cook: It is an issue in a number of areas in rural Scotland that are connected directly to exchanges. We will come back with details on the plans to look at the whole issue.

Gil Paterson: Let us just make sure he does not get it.

The Convener: We will move on.

Mary Fee (West Scotland) (Lab): Last year, the Carnegie UK Trust published its report "Across the Divide: Tackling Digital Exclusion in Glasgow", which found that 62 per cent of people cited that one reason for not having a broadband connection was that they preferred to deal with people face to face. It also found that more than 90 per cent of people in specific groups, including older people, social housing tenants and the unemployed, are least likely to be online. What alternatives will there be for people who cannot or do not want to be digital in their dealings with public services to ensure that they have the same level of service?

Nicola Sturgeon: Nobody should be forced to go down the digital route to access public services. All public services have an obligation to ensure that they are accessible to people, however they want to access them. I am aware of the generalities of the research that Mary Fee talks about. However, the reality is that the reason why many people do not access public services digitally to the extent that is already possible is because they do not have access to the technology that enables them to do it or the digital ability or know-how. It is important that nobody is denied access to the services that they need because they do not have access to the technology.

I think that I mentioned in my opening remarks the digital charter, which sets out our commitment with the ICT industry to increase participation. We have been talking about infrastructure, which is obviously important because, if we do not have the infrastructure, the rest of the discussion is academic. However, we need to ensure not only that we are talking about the infrastructure but that we enable people to use the infrastructure. The work on digital participation through the digital charter, which I can make available to the committee, is very important.

Public services, whether the health service or any other service, must cater for people who do not want to use digital. They must ensure that their services are accessible regardless.

Mary Fee: Do you agree with Mr Maude's estimate that £1.4 million through G-cloud funding has been spent on small and medium-sized enterprises in Scotland?

Nicola Sturgeon: I assume that you are talking about Francis Maude.

Mary Fee: Yes.

Nicola Sturgeon: We agree broadly with that estimate. I am not sure whether everyone is completely familiar with the G-cloud system. Colin

Cook can describe it in more technical detail, but it allows SMEs to make themselves available for some of the digital contracting work.

Our information from the Crown Commercial Service is that reported spend to date via G-cloud in relation to Scottish SMEs is £1.4 million. I think that that is the information Francis Maude gave at a recent conference in Edinburgh.

It is worth noting that, in addition to G-cloud, Scottish SMEs have gained around 29 per cent of Scottish public sector ICT spend, and the figure goes up to 40 per cent when you look at the services market specifically. There is no room for complacency because we want to see our SMEs benefit from the digital revolution, but the figures suggest that things are going in the right direction.

Mary Fee: Thank you. My final question, which is again about SMEs, links to my first question. Do you have any estimate of the number of SMEs in Scotland that will benefit from the Scottish Government's funding of the move to digital public services? SMEs and voluntary organisations in particular often provide support for the groups that are most likely to be offline, so they have an almost pivotal role in helping people not only to access the service but to get online.

Nicola Sturgeon: That is an important question. I am happy to see whether there is more detailed information that we can provide to the committee around the estimated number of companies that are likely to benefit. The number of ICT suppliers in Scotland classified as SMEs was estimated back in 2012-13 at around 2,000—the figure is not bang up to date, but I do not think that it will have changed substantially. That gives you some idea of the number of companies that could benefit.

I said that approximately 29 per cent of our public sector ICT spend is with SMEs. We need to remove products and networks from that spend because those services tend to be dominated by big global companies. As I said, the 29 per cent figure goes up to 40 per cent in relation to service spend. I feel very strongly that our procurement and our general work on digital is about providing what we have described as a utility-type service to households and to businesses as consumers across Scotland, but we must also do everything that we can to ensure that our indigenous businesses benefit to the maximum from the economic opportunity.

Colin Cook: The cabinet secretary said in her opening statement that we have supported the appointment of a director for digital participation at the SCVO. To pick up on Mary Fee's final comments, the logic for that is twofold. First, it is about that individual and their team helping third sector organisations to become more digitally aware and understand the potential of digital

technology to transform how they support people. Secondly, it is about helping and supporting those organisations, which enjoy the trust of many of the people who are offline, to engage more directly with communities. That double-headed approach to help develop the organisations and then to work with them to talk to and support the people who trust them is absolutely vital.

Mary Fee: Thank you for that information.

Jim Eadie (Edinburgh Southern) (SNP): Good morning.

Inevitably, a lot of our discussion has focused on the investment in infrastructure so that the roll-out of superfast broadband can be developed and delivered. I want to ask about investment in digital skills for employees and in upskilling employees, which has an important contribution to make to the development of the digital economy.

In your opening remarks, cabinet secretary, you mentioned a skills academy and spoke about the opportunities for placements in the further and higher education sectors. I would be interested to know more about those opportunities. In particular, how will you deliver the digital skills that are required and address the need to develop the different skill levels, from the most basic to the more specialised requirements, that will be necessary to deliver the digital economy?

Nicola Sturgeon: That is a crucial question. You mentioned correctly that much of the discussion centres on infrastructure. That has been necessary because, for too long, the key constraints in Scotland have been the lack of infrastructure and the lack of access. We are fixing those things, although doing so will take time, and there are a multitude of challenges along the way.

We want to reach a position in which people can take the infrastructure for granted. That will not happen for everybody overnight, but that is where we want to get to. The focus should then move to some of the issues that Mary Fee raised, such as digital participation and whether our companies are poised and able to take advantage of the economic opportunities, as well as the digital skills that you mentioned.

We can look at digital skills in a number of different ways. There are skills that companies operating in the sector will need in order to be competitive and take advantage of opportunities, and there are digital skills for the population, which feeds into the issue of digital participation. I think that you were probably referring to the former rather than the latter.

In my opening remarks, I spoke about the "Skills Investment Plan For Scotland's ICT & Digital Technologies sector"—which is quite a wordy title—that Skills Development Scotland published

earlier this year. The plan is accompanied by £6.6 million of additional funding to help us implement some of its key recommendations.

The digital and ICT sector is very much at the top table among the industries that are powering Scotland's success, so we have to get our strategy right. The sector employs 73,000 people and contributes £3 billion in gross value added, and the wages that it pays tend to be a lot higher than the Scottish average. I say all that to underline the importance of the question that you asked.

The skills investment plan is available for the committee to look at in detail, and I am happy to provide any further information on it that people require. Its key strands focus very much on the industry-led skills academy model, which will support transition training to meet the immediate skills needs of some of the companies in the sector. By 2016, 750 work placements for further and higher education students are planned. The work placement approach is aimed at helping in at least two areas. First, it should generate interest in those types of posts as a career option for young people in further or higher education and, secondly, it will ensure that the skills that companies need are in the pipeline.

Another part of the plan is about helping to improve employer engagement in schools and, moving downstream, to ensure that we engage young people's interest while they are still at school in ICT and digital technology as a career option and educate them on what their options are.

Jim Eadie: Are you confident that the scale of the Government's investment and the extent to which you are able to factor in resource from the private sector matches the scale of our ambition?

Nicola Sturgeon: We have to keep these things under close review, and Skills Development Scotland is well placed to do that. The answer is yes—we are making a substantial investment, and there is a rigorous focus through the skills development plan on taking the action that will mean we will have the supply of skills that will be necessary if we are to fulfil the potential that exists.

Colin Cook: The business case for the skills academy is just being finalised, and we will soon— assuming that the case is robust, as I believe it will be—be able to talk about how it will help the industry. The critical point is that it is being led by ScotlandIS and members of the IT industry.

The other point to bear in mind is that Scotland is not unique in facing the challenge of finding people with the digital skills that we need to support our industry. There is a deficit right across Europe, and we have to do things—

Jim Eadie: Let us move on to measurements and how we compare Scotland's position with those of other countries.

Colin Cook: We have to tackle the skills issue on two levels. We need to work with industry to close some of the immediate gaps, and we must work with the education system and others to look at the ways in which computing and ICT skills are taught in schools, as well as how teachers are kept up to speed on how the markets are developing. We are doing both of those things in the context of the skills plan.

11:00

Jim Eadie: Cabinet secretary, in the context of the digital economy strategy setting out the need to establish a robust measurement framework, what high-level indicators have been developed against which we can measure the progress that is being made in delivering our objectives in this area? Can you or Mr Cook tell us anything about how we measure Scotland's progress in comparison with our competitor nations?

Nicola Sturgeon: I will answer the first part of your question, and hand over to Colin Cook for the second part.

We are working with partners, particularly in the economic development agencies, and through that work we have developed—as you indicated—a draft set of high-level indicators against which we will measure progress in meeting our objectives for the digital economy. The indicators are designed to identify and measure over time the technology that Scottish businesses are using, how they are using it and what the benefits are. The indicators are grouped under four key themes: adoption, usage, benefits and skills.

Adoption is pretty obvious: it relates to the types of digital technology to which businesses are subscribing and gives us a clearer picture of that. The usage theme is intended to capture the ways in which businesses are using the various digital technologies, the intensity of their use and how that changes over time. The benefits indicators focus on the improvements in business performance that result from exploiting digital technology. Those improvements may relate to increased turnover, improved efficiency, the ability to reach new markets or increased innovation.

Under the skills theme, we will assess the digital skills that businesses are both demanding and using, which will help us to identify any skills gaps that are prevalent among the workforce. That relates to your earlier question about whether we are confident that what we are doing with regard to skills is sufficient. Some of those indicators will allow us to measure—not quite in real time, but fairly close to it—whether skills provision is

sufficient or whether there are gaps that we need to address.

Questions have been developed for inclusion in the digital economy business survey, which will capture information in that area. The fieldwork for the survey is on-going and the first results are due to be published by the end of this year. That will give us the first suite of information against which we will be able to measure progress in the years to come.

Colin Cook may want to respond on international comparisons.

Colin Cook: In each element of the digital strategy, we have tried to position and understand Scotland's progress against those of other European countries. Part of that is implicit in our ambition to be world class—in fact, we state explicitly in our recent digital participation strategy that we need to aim for the participation rates in Iceland and Norway rather than those in countries closer to home, on which we have traditionally focused our ambitions.

Jim Eadie: How are we doing at the moment?

Colin Cook: If we deliver on the infrastructure plans that we have in place in the next few years, we will be ahead of many European countries, but we are not yet at the level of participation that we need to be at. As I said, we are behind countries such as Norway and Iceland, where around 96 per cent of people are online already. That is a huge challenge for us.

We will be able to make a much better judgment of our position in the Boston Consulting Group e-intensity index for businesses when we get the results of the fieldwork. My instincts are that we will need to support and help to drive forward some Scottish businesses in that regard, although our ICT sector contains some of the most successful companies in Europe. The picture is mixed.

Jim Eadie: Thank you.

Alex Johnstone: My question is on the same area. We have talked about infrastructure and training, but there are still areas of digital exclusion that could be dealt with. Specifically, there are people out there who will need help to access digital services. For example, the drive to move benefits payments online obviously has enormous advantages, but the extent to which people engage at that level remains a concern. What can we do to get people right across the scale to engage more with the available access?

Nicola Sturgeon: That question goes to the root of whether all this investment in infrastructure will be worth while. We need to get the maximum number of people using it, which is why I have referred a couple of times to the digital participation strategy, which was published in April and endorses a definition of basic digital literacy. That includes essential online skills such as sending and receiving emails, using a search engine to browse the internet, evaluating whether to trust a website and knowing how to deal with privacy settings. It also looks at a person's ability to share their personal information by filling in online application forms and accessing Government services online. As you said, the trend is moving more towards that, so it is becoming important. That is the baseline that we are trying to achieve so that everyone can access basic online services, and the digital participation strategy sets out how we intend to take that forward.

However, basic digital literacy should not be seen as the end goal. If we want to become a world leader by 2020, we must strive to go beyond that. We are working closely with the Scottish Qualifications Authority and Skills Development Scotland to create a much clearer pathway for people who want to go beyond the basics to much more sophisticated training and perhaps achieve qualifications that are recognised by employers and needed to get into further and higher education. We see it very much as a journey from the basic to the more sophisticated, but the absolute bottom line is that we need to ensure that everybody has the basic level of digital literacy that allows them to do the basic things online that many of us increasingly take for granted in our everyday lives.

Alex Johnstone: I hear what you say about the criteria for assessing a basic level of digital literacy, but how can the information be used effectively to identify those who do not have those skills and need to upgrade their skills?

Nicola Sturgeon: I have talked about the digital participation strategy, and Colin Cook and I have mentioned that we have appointed someone to work in SCVO on that. The idea is to develop community digital hubs and to have people active in different community organisations. I have also talked about a matchmaking service between people who are able to offer skills and community groups that need help in getting the people with whom they engage to the basic level of literacy.

A huge programme of work is needed. As you say, we must identify the people who need the help before we can help them, which is why all that work, which must be community based, is going to be important.

Colin Cook: With the introduction of digital public services, the aim is to approach the issue from both ends. First, the services must be designed to be as accessible as possible. They must be designed with a focus on making them easy and attractive to use, and that thinking

underpins the Scottish Government's digital public services.

Secondly, as the cabinet secretary mentioned, working with SCVO and other partners—industry is playing an important role—we are building a network of centres and volunteers across Scotland who will be in a position to support people. As people need support, whether in using digital public services or for other aspects of their health, education or whatever, a support infrastructure will be in place to help them.

We want to use the opportunity of the introduction of wider digital public services to build skill levels and not just increase the penetration of services per se.

The Convener: It is always said that large parts of Glasgow experience digital exclusion. Are we beginning to see the fruits of SCVO's labours?

Nicola Sturgeon: Yes. I know the landscape in Glasgow well, and a lot of innovative work is being done there. We are working closely with Glasgow City Council and the Wheatley Housing Group, which includes the Glasgow Housing Association, to help digitally excluded groups to become digitally included.

Digital Glasgow has citizen participation as one of its key priorities. The aim is for the most disconnected groups in the city—disabled people, elderly people, unemployed people and people who live in social housing—to become more confident in their use of the internet. There are some very innovative projects, such as a low-cost broadband pilot in a multistorey block that provides access for 79 tenants. The projects are quite cutting edge, which is what we need—not just in Glasgow but, given the levels of participation in Glasgow, they are particularly important there. I am not, by any stretch of the imagination, saying that we are there yet, but a lot of good work in Glasgow is taking us in the right direction.

Colin Cook: We mentioned the Royal Society of Edinburgh's report. It identifies what it describes as the network, which comes down to the fact that if the people with whom someone socialises—their friends and neighbours—are not online, they do not see why they should be. We have tried to address that in the plan that the Scottish Government and SCVO have put together by making a fund available for community groups more generally to take their content online. It is not just for ICT-type issues. A community group—whatever it might be—may get more out of a hobby or interest by building a network online, putting its content online or encouraging other people to go online. A fund will be launched to support that kind of progress, and we have heard that people in Glasgow and elsewhere will bid into that.

The Convener: I presume that there are figures on digital exclusion. Are we seeing them improve?

Nicola Sturgeon: We are.

Colin Cook: We track those figures. This will be a long-term issue. Glasgow City Council is putting a lot of effort into it, and we are working with the council. As the cabinet secretary said, some of the projects, such as the Glasgow Housing Association and the Wheatley Housing Group project, are attracting national and international attention. However, it will take time for findings to come out of those projects and for us to learn the lessons and distribute them more widely.

The Convener: I thank the cabinet secretary and Mr Cook, and I suspend the meeting to allow the cabinet secretary's officials to swap over.

11:12

Meeting suspended.

11:17

On resuming—

Prestwick Airport

The Convener: The third item on the agenda is to hear evidence once again from the Cabinet Secretary for Infrastructure, Investment and Cities, this time on Prestwick airport. The cabinet secretary offered the update when she previously gave evidence on the matter, in March this year.

I again welcome Nicola Sturgeon. I also welcome Sharon Fairweather, who is director of finance at Transport Scotland; John Nicholls, who is director of aviation, maritime, freight and canals at Transport Scotland; and John Scott MSP and James Kelly MSP, who are attending for the item.

Cabinet secretary, would you like to make an opening statement?

Nicola Sturgeon: I would, convener. I should say at the outset that, with your permission, my opening statement will be a little bit longer than would normally be the case in committee sessions, but I am anxious to cover a number of salient points before we go to questions and answers.

As members will appreciate, since we acquired Prestwick airport, we have undertaken a substantial amount of work to review the long-term development options to return it to profitability. I want to give the committee an update on that work and an overview of some of the proposed changes that are required to take the airport forward.

As members will appreciate, further work is under way and on-going. I will certainly be very happy to discuss with the committee an appropriate arrangement for regular updates, because the committee will obviously continue to have a very close interest in developments at the airport.

I am accompanied by Sharon Fairweather and John Nicholls, who are part of the senior management team at Transport Scotland and, more pertinently for today's purposes, board members of TS Prestwick HoldCo Ltd, which is the company that we established for the purpose of acquiring the airport.

As I have indicated—I should stress this point straight away—although we have received an extensive report from Romain Py, who is the senior adviser whom we appointed to do the work, there is still further work to do before we can make certain further decisions on the way forward. However, there are a number of practical steps that we can take immediately, and I want to update the committee on those.

As colleagues will be aware, the Government acquired the airport to prevent its closure. At that time, the choice that we faced was that stark. It is a fairly confident assumption that, had we not acquired the airport, it would not be open now. The airport will now operate as a public corporation on a commercial basis and at arm's length from the Scottish Government. That is important, and we may come back to the significance of that point in further discussions later on.

The Scottish Government is making an investment in the airport, which will be in the form of loan funding, and we require to generate a long-term return for taxpayers' money. That is the first important point to stress. The airport will be run on a commercial basis.

As I have already said, to assist us in that process, our senior adviser undertook a three-month review of the long-term strategic options for future business development and the repositioning of the airport. He also looked at the options for ownership and the optimum operating structure that is required to take the airport forward. All the work that the adviser has undertaken is what we would expect any commercial business to undertake as part of its on-going business planning activities.

That work delivered a stage 2 business plan, which builds on the earlier work that was prepared to inform the decision to acquire the airport and sets out the commercial opportunities that are available to the airport over the next few years. I will give an overview of some of the key messages that came out of that report.

Glasgow Prestwick airport is described as a non-typical airport, which means that its success is not predicated on passenger traffic or any one business area alone. That means that there are opportunities to capitalise on its other assets and related businesses, such as freight; maintenance, repair and overhaul; fixed-base operations; and property. Ensuring that we work to improve the position across all those different strands of the airport's business will be important to the airport's long-term success. We will look to make steady improvements across all the airport's business activities.

As I have previously advised the committee— this bears repetition—there is no quick-fix solution for Prestwick. A sustained effort will be required over a number of years and, crucially, across more than just one of the airport's areas of activity.

I turn to patronage issues. The business plan confirms that the airport can be returned to profit, although that will be challenging—I have often said that before—and the repositioning that will be required to achieve that will take long-term

investment. The business plan includes an assessment of the reduced Ryanair schedule for summer 2014, which was not known at the time of acquisition, but it does not take account of the final position for the 2014-15 winter schedule, as that is not yet known.

Members will be aware that airlines generally work to two seasons and regularly change capacity and frequency across their entire networks. Given the highly competitive nature of the aviation market not just in the United Kingdom but across the whole of Europe, we cannot assume that there will be no further reduction in the short term. That means that the impact of any further changes in the passenger market will need to be closely monitored on an on-going basis, as it is difficult to predict patronage levels too far into the future.

On route development, as I have already mentioned, Prestwick does not rely solely on passenger traffic to generate revenue. Indeed, it is worth pointing out that the revenue that comes directly from aviation—passenger, freight and other aviation services—represents less than half of the airport's total revenue. However, passenger route development will clearly remain an important part of the business.

As committee members will be aware, recent changes in the European Commission guidance on support to regional airports might provide an opportunity to develop routes at airports in Scotland, as long as support does not impact on neighbouring airports. As members are aware, our team Scotland approach is geared towards ensuring that we support airports' ambitions fairly and without detriment to existing services. I have asked officials to do some additional work on how Prestwick may be able to benefit from the revised guidelines, and I am happy to update the committee further on that in due course.

Based on current traffic projections, we do not anticipate the airport becoming profitable and cash positive for several years. Investment by the Scottish Government will be required until then, which will be in the form of loan funding, as I said earlier.

Much of that expenditure will require detailed analysis and will be supported by a robust business case prior to the necessary funding being committed. It is envisaged that the repositioning capital expenditure—which I will say a bit more about shortly—will include a range of projects to improve the airport facilities and the overall passenger experience; for example, refurbishment of the duty free area and improvements to the visual appearance of the existing terminal building.

As regards funding requirements, when I spoke to the committee in March, I indicated that the airport had received £5 million in funding support up to that point. I should point out that £4.5 million of that was spent in the 2013-14 financial year. The latest position is that, since acquisition, we have provided £5.5 million in the form of loan funding.

I also indicated in March that we intended to provide repositioning capital for this financial year and I can confirm that that will be £2.4 million, which is broadly—not quite, but broadly—as confirmed in March. As I have indicated already, that money will be associated with improvements to the terminal building, a refit of the duty free area and other changes to improve the passenger experience. Our current projections are that in the 2014-15 financial year we will be required to provide an additional £3 million in operating support.

As members know—as everybody knows—part of the problem is that there has been historical underinvestment in the fabric of the airport. We now have a much more detailed assessment of the backlog of essential maintenance that we require to undertake in the short term to ensure that the airport remains operational and we are projecting costs of approximately £4.3 million in the current year. In addition to the total investment, the cost of Romain Py's work has been approximately £100,000.

As I have said already, some work remains to be done before we can properly complete the stage 2 business planning process. Part of that work will be to assess the likely impact on business of the reduction—and, indeed, eventual abolition—of air passenger duty. There is no doubt that mitigation of APD at Prestwick would be enormously beneficial in relation to trying to increase passenger growth. I have asked for some further modelling work to be undertaken around that. It is probable that the results of that modelling will have a material impact on potential future growth of the business and I will provide the committee with a further update when that modelling is completed.

Of course, that work is in addition to the detailed economic analysis that is relevant to all Scotland's airports, which will be developed when control of APD comes to Scotland—as I hope that it will in the not-too-distant future.

As regards our plans for the future corporate governance of the airport, we intend to establish a two-tier board structure, with a holding company board being responsible for the long-term strategy for developing the airport and an operations company board empowering management to deliver the strategy. That is what will give form to

the arms-length relationship to Government that I spoke about earlier.

I can confirm that a non-executive chair, who will chair both boards, and a number of non-executive directors will now be recruited. Those directors will oversee the operation of the airport, support the senior management team to implement the repositioning of the airport, and provide appropriate corporate governance of all its activities.

The senior management team is being restructured and that will be confirmed on completion of discussions with the various existing members of the team. The executive directors will be tasked with delivering the business plan, maintaining a lean cost base, and developing the commercial opportunities of the airport.

I will now address the issue of branding and the name of the airport. It is an issue that has been raised with me by a large number of people and I know that it is the subject of much interest. As somebody who hails from Ayrshire, I recognise the strength of feeling over the issue of the airport's name and I welcome the engagement that our senior adviser has had with the Robert Burns World Federation.

11:30

We have considered the issue very carefully, but on balance I have concluded that there are strong commercial reasons to retain the Glasgow Prestwick airport name rather than to rename the airport. We need to keep it in mind that, although changing the name would undoubtedly be a welcome move locally, we need to promote and market Glasgow Prestwick airport to airlines and passengers across the world. Glasgow and Prestwick are both strong names, as you would expect from an airport that has been operating for such a long time, and we do not want to risk creating confusion that would make it more difficult to grow the business.

However, the importance of recognising Robert Burns is not lost on anybody and we will commission work to develop a Burns-related theme for the terminal and to consider other ways in which the rich legacy of Burns can contribute to the promotion and marketing of the airport. We will consider how best to involve the local community and local Burns groups in taking that forward.

In conclusion, I am conscious that there is a great deal of interest in Prestwick airport's future and a genuine desire, both in Ayrshire and more widely, to see the airport succeed. To reflect that interest, and to mark the start of what we all hope will be a renaissance for the business, we intend to publish a document that sets out a strategic vision for the long-term future of the airport, including our plans for investment, for business development and for the optimum operating structure required to take the airport forward. I have already alluded to much of the content of that strategic vision. The document will also contain the main findings of the additional work I have commissioned, which I referred to earlier.

Colleagues will appreciate that, as I said, the airport will be operating commercially, so much of the work that has been done is commercially sensitive and, if it was all released, that would hinder Prestwick's ability to grow its business. Nevertheless, given the high degree of interest and the significant public funding involved, we will operate on the basis of being as open and transparent as possible—as I hope my rather extensive comments have demonstrated.

My apologies for the length of time that it has taken to give that overview, but I thought it important to give an overview across the key areas that I want to cover today. I am happy to answer questions.

The Convener: Thank you very much, cabinet secretary. Adam Ingram will start the questioning.

Adam Ingram: Can you detail Romain Py's key findings and his recommendations in relation to the future viability of the airport? Can you summarise those for us? I know that you have covered a lot of ground in your opening remarks, but can you distil for us the recommendations in relation to the commercial viability of the airport?

Nicola Sturgeon: I will do my best to summarise them as basically as I can.

The key message of Romain Py's work is that we should seek to take advantage of the diversity of what the airport currently does and what it potentially has to offer. As I said in my opening remarks, it is described as a non-typical airport. That means that its success is not predicated on only one area of its business activity: passenger traffic. I said in my opening remarks that when you look at the airport's various revenue streams, the direct revenue from aviation—passenger freight and the other aviation activities that are associated with Prestwick airport—is half of the revenue. Of course, other revenue streams such as retail and car parking have a link to the aviation revenue, but that statistic helps to put things in context. The key message is that there is no quick fix and we should not take a single-pronged approach. We should look to make steady improvements across all the airport's business activities.

We cannot assume as we go forward—particularly when it comes to the passenger market—that the improvements will always be linear, because there may be reductions as well as increases. However, over the medium to long term we have to aim to make steady improvements

across passenger traffic and freight and we must look to enhance the maintenance, repair and overhaul business—the fixed-base operations that are at the airport. As we have discussed previously, the airport has a large property portfolio and a number of things have to be done to try to increase its worth and value to the airport.

Some of the initial capital investment plans that we will implement are designed to have some quick wins around revenue increase. Money that will be spent on refitting the duty-free area is designed to increase the retail income from the airport. Changes to car parking are designed to try to increase the car parking. Efforts will also be made to ensure that the airport's cost base is as low as possible while providing a high-quality service.

The overall message is that there are a number of different areas of activity for the airport and they are all as important as each other as we take the plans forward.

Adam Ingram: We know that the aerospace park is being designated as an enterprise area. Will the airport be included in that? Is that one option for trying to encourage further economic activity?

Nicola Sturgeon: I said that the land around the airport is part of its value. We need to ensure that plans are in place not to have vacant land or properties, that we encourage business and that we try to grow the maintenance, repair and overhaul base at the airport.

One of the reasons why Prestwick is considered to be strategically important is the aerospace cluster. As you well know from your local knowledge, the aerospace cluster is not directly dependent on the airport, but there is no doubt that having an operational airport next to it helps to make it attractive.

The clear message is that we must consider not only the passenger traffic but the broader span of activities in which the airport has historically been engaged and look to grow all those activities in the time to come.

Adam Ingram: One inference from what you are saying is that the scope for increasing passenger traffic might be limited, given the need that you expressed to develop other types of activity at the airport. Prestwick has been dependent for many years on Ryanair for its passenger traffic. Do we have any commitment from Ryanair or have you any concerns about how to develop the airport's passenger traffic?

Nicola Sturgeon: Prestwick operates in a passenger market that is highly competitive, not only in the UK context but across Europe. As I said in my opening remarks, trying to grow the

passenger business at Prestwick—trying to encourage new routes, new airlines and growth in passenger numbers—is, of course, a part of that, but we should not see it as the only strand. I stress deliberately the importance of looking at the airport in the round. The business plan factors in the changes to the Ryanair schedule for the summer this year but the winter schedules have not yet been finalised.

We will need to keep all that under continual consideration because of the nature of the market in which we are working. Equally, we will have to ensure that we do everything we can to take advantage of opportunities. That is why I refer to the additional work that I asked to be done on the changed European Commission guidelines on route development so that the management team that will operate the airport is able to take advantage of all opportunities that exist.

Adam Ingram: You also highlighted the need, perhaps, to rebrand Prestwick airport. As a local elected representative, I am obviously disappointed that you have chosen not to rebrand it as Robert Burns international airport. As my colleague John Scott also knows, that was considered for a good many years. We could never persuade Infratil, the previous owners, to go down that road largely because of the notion of Prestwick as a feeder to Glasgow—it was marketed internationally as a Glasgow airport. I presume that Romain Py's recommendation is to confirm that approach.

Nicola Sturgeon: The recommendation is not to rename the airport but to continue with the Glasgow Prestwick name. As I said, I am not at all blind to the local strength of feeling around what the airport should be called—I probably had more emails and letters on that point than on any other point once we acquired the airport—but you need to bring a pretty hard-headed analysis to these kinds of things. We are talking about an airport that has to stand on its own two feet, commercially—that is the objective. It has to win business and sell itself. One of the great advantages that Prestwick airport has is that, without being complacent about it, we can take for granted the local support for the facility. If you were trying to market it locally and win local support, calling it Robert Burns international might be the thing to do, but we have to market it and win support for it in a much broader international context, and changing the name risks confusion. Obviously, Robert Burns is a strong and powerful international brand, but not everyone will know of his connections with Prestwick. We need to make a clear statement of where the airport is and where it is positioned in Scotland. Sticking with the current name is the way to do that. I have been persuaded of that argument. It is not the

sentimental approach, but it is the hard-headed and pragmatic thing to do.

I would not underplay what I am saying about there being a serious determination to use the Robert Burns branding as part of the marketing strategy. Romain Py had good input from the Robert Burns World Federation around how that could be taken forward, and we want to commission some work on how that can be put into practice.

Adam Ingram: Clearly, rebranding the airport is going to cost some money in terms of marketing and refurbishment. You mentioned a series of figures for money going into the airport in the current year. Can you give me global totals for the current financial year and the previous one?

Nicola Sturgeon: In the previous financial year, the support was £4.5 million. This year, the operational support will be £4 million. The previous time I appeared before the committee, I said that we had given £5 million. Some £4.5 million of that was for the previous financial year, and the remaining £0.5 million and an additional £0.5 million that has been given since then will be added to the projection of another £3 million in operating support for this financial year. That is the total.

I have split capital investment into two strands. Everybody knows about the backlog of maintenance that has not been done at the airport. We are projecting costs of £4.3 million this year to try to bring some of that backlog of maintenance up to scratch. Some of it is very basic and is about ensuring that the airport can remain operational, but following on from that there is the need to invest capital in trying to reposition the airport. That involves the £2.4 million that I spoke about, which will be spent on things such as improving the appearance of the airport, including some work on the branding and theming that I mentioned. With regard to the duty-free area, the fact is that the people who are going through Prestwick airport are probably not spending as much in the airport as they would spend if the offer was more attractive—that is, if there was a better positioned duty-free area. Therefore, we will spend money on changing that with a view to that becoming an increasing revenue stream.

I do not know whether anyone round the table has travelled through Prestwick airport recently. I have, and I can tell you that it needs general improvements to make the passenger experience a better one if we are trying to encourage passengers to fly from there. The £2.4 million is very much about that work, which is intended to deliver improvements that will have a knock-on effect in terms of the revenue position of the airport in years to come.

Adam Ingram: Is the additional work that you have commissioned from Romain Py or from a broader body of people?

11:45

Nicola Sturgeon: There will be an input from Romain Py, but my officials in Transport Scotland and the Scottish Government will also make key input. We need to keep flight schedules and passenger numbers under review. As I have said, we cannot assume that we are not going to see reductions in both, although obviously we want to see increases. I have also stressed repeatedly that our ability to grow passenger numbers at the airport—and I know that other Scottish airports think similarly—would be improved if we had the ability to do something about APD.

The whole picture has to be kept under review. I have asked for some specific work to be done on APD and what the modelling would show if we were able to do something about that, as well as further work around route development options. My officials in Transport Scotland and the Government will be centrally involved in that work.

Adam Ingram: I understand there are commercial confidentiality issues to consider, but in your opening remarks you mentioned something about the publication of future plans. Can you confirm that for us?

Nicola Sturgeon: As soon as we are able to, we intend to publish a strategic vision for the airport that will incorporate as much of the information from the work that Romain Py has done as we are able to incorporate.

I am going to be pretty unapologetic on this point. The airport will be expected to operate commercially. The situation is different from that of the Highlands and Islands airports that are openly subsidised by the Government. The Government's investment in Prestwick airport will be on a different basis. It will be in the form of loan funding that will be expected to generate a long-term return on taxpayers' investment. We cannot expect Prestwick airport to run successfully on a commercial basis if we are expected to put into the public domain information that other commercial airports would not put into the public domain. As the owners of the airport, we will be as open and transparent as possible, but we are not going to hinder the airport's ability to do the job that we are asking it to do.

A strategic vision will be published and it will incorporate as much information as possible, but the contents of some of the work that is being done is commercially confidential and to put it into the public domain would be to hinder the airport's ability to do the work that it will be expected to do in the years to come.

Adam Ingram: Thank you.

Mark Griffin: I have a supplementary question to Adam Ingram's question about the area surrounding the airport, and the enterprise zone. Is the cabinet secretary aware of work being carried out by Scottish Enterprise to encourage Scottish companies to relocate to Prestwick airport and the surrounding area? Is the Scottish Government supporting those activities?

Nicola Sturgeon: The Scottish Government wants to work with our agencies to ensure that the work on the enterprise zone that predates our acquisition of Prestwick airport is successful. The aerospace cluster around the airport is important, and it is important that Scottish Enterprise, with appropriate support from the Scottish Government, works for that success. However, to go back to a point that I made earlier, it is not the only strand of what we need to do to make Prestwick a success. There are other issues around the property portfolio of Prestwick, if I can call it that. It might be that the management team thinks that there are decisions to be made about disposal of some property to bring in a capital asset. There might be issues around vacant property and whether there needs to be a strategy to fill that property. The aerospace cluster and the work around that is important, but there is also a wider issue about the airport property.

Mark Griffin: It is important to support Prestwick and its viability into the future, but concern has been expressed in my region, where a company in Lanarkshire has been encouraged to relocate to Prestwick. There is a worry that the need to support Prestwick will have an impact on non-domestic rates for the local authority and on local jobs in Lanarkshire. That should be taken into account when Scottish Enterprise is encouraging companies to relocate.

Nicola Sturgeon: I am not aware of the company that you are talking about, but I am more than happy to have a conversation based on the specifics if you want to provide me with details afterwards.

Scottish Enterprise is there to help the Scottish economy to grow in the best possible way by engaging with companies in their best interests. Although the Scottish Government owns Glasgow Prestwick airport, when it comes to the airport's business—aviation and associated business at the airport—it is not for the Scottish Government to favour Prestwick over Glasgow, Edinburgh or any other airport. That is why the arm's-length operation of the airport vis-à-vis the Government is so important. The airport will be operating commercially. If it is going to win business, it will have to do so on merit. The arrangements for the Government funding and the long-term return on taxpayers' investment are a key part of that.

We all want Prestwick to succeed, but it will succeed in the long term if it is able to make a success on that commercial basis and not because people are doing it favours along the way. That is the key point that must be stressed.

Alex Johnstone: When the cabinet secretary was talking about the various streams of funding that will go into the airport, I tried to add them up, but I got lost at one point when I realised that we were talking about the same numbers that we talked about earlier. Are you able to put a simple figure on the total amount of Government money that will be put into Prestwick in the current financial year?

Nicola Sturgeon: In the current financial year, it will be around £11 million, with £4.5 million in the previous financial year. The £5.5 million figure is £500,000 more than the £5 million that I mentioned at the previous meeting. There is £2.4 million of repositioning capital for some of the early works that are designed to raise revenue streams. There is £3 million of further operating support in this financial year, and £4.3 million of backlog capital maintenance in this financial year. As I mentioned, £4.5 million of the total was in the last financial year. In total, broadly speaking, it is £15 million, with £4.5 million in the previous financial year and the remainder this year.

Alex Johnstone: Regarding the work that has been done by Romain Py, the minister has already explained at some length that it will largely not be published, for reasons of commercial sensitivity. Can you tell me anything that will help me to better understand the nature of the commercial sensitivity that prevents you from publishing much of it?

Nicola Sturgeon: When it comes to what the airport might be planning to do to grow its business in a particular area—be that freight, passenger services or anything else—and regarding how it is going to engage with other businesses, airlines and so on, some of that is obviously commercially confidential.

I stress that our starting point is not to not publish information. I am a politician, and my starting point, as I try to make it easier for me to sit and answer questions from the committee, is to have as much of the information as possible in the public domain. We will publish a document that does that. There is a degree of commercial confidentiality with regard to some of the detailed financial projections, which are predicated on what will happen if the airport succeeds in one particular line of its business or another, and it would hinder the management team at Prestwick if all that was in the public domain.

If we were operating Prestwick similarly to how our Highlands and Islands airports operate—that

is, on an openly subsidised basis—it would be different, but we are expecting the airport to run commercially, on the same basis as Glasgow airport. Therefore, Prestwick airport needs to be able to operate on the same commercial basis.

Alex Johnstone: I hear what you say about running the airport on a commercial basis. We have spoken before about the long-term plan to return the airport to private ownership. Is that still your intention?

Nicola Sturgeon: Yes. The airport is not currently up for sale. We are in it at this stage for the long term; our objective is to secure a return on the public investment in the airport in the long term, and then to market the airport for sale on the basis of the turnaround that happens. We have not set a date for that. There are too many variables at this stage, so it would not be sensible for me to sit here and give even a guesstimate date for when it might be possible to do that. We are clear that this is a long-term investment. However, I agree that a return to the private sector remains the end-point objective of the exercise.

I was clear with the Parliament when I announced the acquisition of Prestwick airport that we were not taking it over as any kind of ideological move and that we were not relishing taking it into public ownership but that we were doing it because the only alternative was for the airport to close. We want a situation whereby taxpayers get a return on their investment and the airport goes back into the private sector. I think that everybody would want to see that happen, but there are a number of variables along the way that will determine the timescale for that. It would be simply wrong for me to sit here and try to guess at this stage what that will be.

Alex Johnstone: In terms of the timescale, would it be fair to say that returning the airport to the private sector is now a long-term ambition?

Nicola Sturgeon: I have used the term "long term" and it will be several years, but I am not going to try to narrow it down any further than that.

Alex Johnstone: Thank you.

Mark Griffin: Taxpayers seeing a return on the loan investment is predicated on the airport coming back into profitability. Our ability as parliamentarians to scrutinise whether the investment is wise is predicated on our understanding the work that Romain Py has done. Will even a redacted form of the report be published to allow us to scrutinise the spending and assess whether the public purse will ever see any of that back?

Nicola Sturgeon: In order for us to make the investment in a way that is consistent with state aid rules and the market economy investor

principle, we have to plan a return on the investment. As a parliamentarian, I absolutely understand the importance of proper scrutiny of the use of taxpayers' money. That is why I am sitting here and have gone through in some detail the public investment that will be made this year, and why I have said that we will translate into a published document as much of Romain Py's work as we can without hindering commercial confidentiality and the airport's ability to operate commercially.

On future projections, some of them depend on work that we still require to do. Some of the work that I have talked about today will require knowledge of our early success in building some of the revenue streams and reducing the cost base of the airport.

Your ability as parliamentarians and committee members and the ability of the Parliament as a whole to scrutinise the investment is very important. That is why I said at the outset of my opening remarks that I am keen to come to an arrangement with the committee that sees a regular reporting mechanism between me and the committee so that you can scrutinise that on an on-going and forward-planned basis.

The Convener: Do you want to come in on that point, John?

John Scott (Ayr) (Con): Not on that point, but on several other points, if I may.

The Convener: In that case, I will take you at the end if the points have not already been covered.

Jim Eadie: I want to clarify a number of points with you, cabinet secretary, if I may. The first relates to funding and a number of the funding requirements. Am I right in thinking that you said that all the funding will be in the form of formal loan funding?

Nicola Sturgeon: Yes.

Jim Eadie: Good. I just wanted to clarify that. So, essential maintenance, operating support and changes to the building to improve the passenger experience will all be done through loan funding.

Nicola Sturgeon: All the funding that we put into Prestwick airport, apart from the money that we had to spend to buy the airport—we bought it for £1, but the due diligence work that we did is seen as a kind of sunk investment that does not come back—will be on the basis of loan funding. The terms of the repayment schedule for that and the terms under which it is repaid take us into the discussion about the inability at this stage to say what the timing will be, because that is predicated on the success of the business planning for building the different revenue streams of the airport.

12:00

Jim Eadie: That is clear. Thank you. I also want to ask you about the governance arrangements. When you appeared before the committee on 19 March, you said that TS Prestwick HoldCo Ltd had been established to enable the transfer of ownership to take place and that the interim measure would involve three board members, who would be senior Transport Scotland officials. You said that you would then take advice on what the permanent governance arrangements should be. Have you had time to decide what the future looks like in that regard?

Nicola Sturgeon: I outlined that in summary in my opening remarks. You may recall that when I gave evidence to the committee previously—I think that the *Official Report* will bear me out on this—I suggested that we might decide to get an outside operating company in to run the airport. The recommendation that has come from the work that has been done is that that is probably not the best route to go down, as having an outsourced management team on a priced contract would not necessarily give us the clear incentive, energy and drive that we will need from a management team. Obviously, the arrangements are kept under review, but we have decided not to go down that road.

We will set up a two-board structure—on a first reading, that sounds a bit bureaucratic, but there are sound reasons for it. There will be a strategic board, which will be the key conduit for the Government to effectively influence the airport's strategic direction and will enable us to ensure that we safeguard public investment, and it will set the overall strategic plan for the airport. The second board will be the day-to-day operational board, which will be important in establishing an arm's-length relationship. As the owner, the Government of course has an interest in the strategic direction of the airport, but it is not for the Government to be directly involved in day-to-day operations and trying to win business.

As I have said, we will recruit a non-executive chair for both boards, and each board will have non-executive members. The senior management team will be on the operational board as well.

Jim Eadie: Just to ensure that I have understood you correctly, is it the case that the senior officials from Transport Scotland will sit on the strategic board?

Nicola Sturgeon: They will not—Transport Scotland officials will probably sit in an observer capacity, but we will recruit non-executive members to sit on that board. They will be appointed by ministers to represent the Government's interests, and Transport Scotland will attend board meetings on an observer basis.

John Nicholls (Scottish Government): The intention is that, on the operational company board, there will—as the cabinet secretary described—be a non-executive chairperson who will be independently appointed, supported by non-executive directors. Transport Scotland officials might then attend in an observer capacity.

For the holding company, on the strategic board, there will again be a non-executive chairman, independently appointed, who will be the same person who sits on the operational company board. At present, we envisage that the other directors of the holding company will be representatives of the Scottish ministers, but that is for review.

Jim Eadie: I am trying to tease out, with regard to the announcement in March, what is permanent and what is interim. Can you shed any light on that?

Nicola Sturgeon: The current board, with which John Nicholls and Sharon Fairweather are involved, is overseeing the whole airport operation at present. That will, in a sense, cease to operate in its current form and will be replaced by the dual board structure that I have described.

The strategic board will, similarly to the current board, have Government interests directly represented on it to focus on the strategic direction of the airport, but the operational board will in effect decide on the day-to-day operations and the particular business opportunities that the airport wants to pursue. The current arrangements will in effect split into those two separate strands.

Jim Eadie: I was not being deliberately obtuse—I am just trying to understand the situation. You have now set it out in a way that even I can understand, so I thank you very much.

I have one final question. When you appeared before the committee in March, I asked about the potential that might exist for developing Prestwick—albeit that there are funding constraints, given that international development is not currently within the competency of this Parliament—as a centre for international disaster relief. That idea was suggested by a constituent of mine, Alan McKinney. Could Prestwick play a role in providing humanitarian assistance and overseas aid? Have you discussed that or had the chance to consider it? Can you update us in that respect?

Nicola Sturgeon: It has been recommended in the work that has been done as something that we can follow up and pursue. Prestwick certainly has the necessary infrastructure to enable it to become a hub for European emergency disaster relief programmes.

As you are probably aware from your constituent, the European Commission

Humanitarian Aid Office is looking at where those types of services operate from. I cannot say that it is a definite area of potential for Prestwick, but it has been identified as a point that we should follow up directly with the relevant European bodies, and we will do that.

Jim Eadie: Will you update the committee on that in writing?

Nicola Sturgeon: I will update the committee as soon as we have any material progress in that regard.

Gil Paterson: Cabinet secretary, you spoke about passenger numbers in response to a question from my colleague Adam Ingram. Will you update us on the freight figures and the prospects for the future in that respect?

Nicola Sturgeon: There has been a steady but fairly hefty decline in freight tonnage at Prestwick from around 40,000 tonnes in 2003 to around 10,000 tonnes in 2013.

There was quite a substantial increase in freight in April and May of this year, but I do not want to overstate that increase, as it took place over a two-month period and the trend may not be borne out in the annual figures. Nevertheless, the increase over those two months was quite substantial compared with the same period last year. At this stage, therefore, there are some reasons for optimism about the freight business, but that comes with a healthy caveat.

Gil Paterson: That brings me to a wider question. Perhaps I should declare an interest, because one of my businesses supplies industrial coatings throughout Scotland; you will understand why I am declaring that when I pose my question.

As important as flights and freight are to Prestwick, my main concern is for the vibrancy and wellbeing of the very good industrial businesses that operate in and around Prestwick airport. On the radio this morning, I heard someone who I think was from the Glasgow Chamber of Commerce raise questions about Prestwick, although it was a recording from a few months ago, so it was not up to date.

My understanding is that Prestwick's industrial delivery chain operates throughout central Scotland, so the situation with the airport can impact adversely or favourably on businesses. I am wondering about engagement with the business community, in particular with the local people who do very good industrial work—I am sure that John Scott can elaborate on that. How does the situation with the airport impact on the wider industrial business community?

I got the idea that the gentleman whom I heard on the radio was trying to protect Glasgow airport. I cannot remember the exact term that you used, but you spoke about special status for Prestwick airport because of its significance in terms of what it delivers for the wider community, rather than from the point of view of the flights in and out of it.

Nicola Sturgeon: I did not hear the radio interview that you are talking about, so I will not respond on that issue in case I get it hopelessly wrong.

On your comment about Glasgow, that is where the arm's-length relationship with Prestwick becomes very important. I want to see all our airports succeed. I am a Glasgow MSP, so I want to see Glasgow succeed. Although all our airports operate in a very competitive market, it is not for the Scottish Government to pick one airport over another. We operate a team Scotland approach in encouraging airlines to come to Scotland. It is for the airlines to make a commercial decision about which airport to go to. Our airports have to put forward their best case; it is not and it will not be for us to have a situation in which Prestwick is favoured in that part of the process. I hope that, as more airlines and more routes come to Scotland, all our airports will be the beneficiaries of our approach.

On your general point about the importance of Prestwick airport to the local economy, that is a point that I, too, made when I announced the Government's decision to acquire the airport. Its contribution to GVA locally and nationally is quite significant. It has very strong support in the local business community; indeed, I think that the Ayrshire Chamber of Commerce and Industry has a base and a presence in the airport.

Since we acquired the airport, I have been extremely impressed by the number of offers of assistance and expressions of willingness to engage and be part of the process of finding the route back to success for the airport that we have had from local businesses and organisations. That might not automatically translate into business for the airport, but it is a fortunate position for the airport to be in. Indeed, one of its strengths is that it has such strong support in the immediate community that it serves. Some of the points that you make underline that.

Gil Paterson: I want to go beyond that. I know well how important the airport is to the local community. That is a given; I am sure that local businesses will be very aware of that.

My business, which my son now runs—I no longer run it; I am here all the time—supplies industrial outlets that are nowhere near Prestwick that, somewhere down the line, may well be supplying Prestwick. Rather than simply being a place to fly in and out of, Prestwick is very important on an industrial basis to the wider business and industrial community in Scotland. I

do not think that many people know that, except those who supply Prestwick.

My headquarters is in Bishopbriggs, which is quite close to Glasgow. We are well away from Prestwick, but I and many other people may well be supplying Prestwick indirectly—as I think my business is doing—or directly, from much further afield. We are talking about extremely important businesses. The impact goes much wider than the Prestwick area. I do not think that a lot of people are aware of that or of the good work that is being done to make Prestwick in its entirety viable.

Nicola Sturgeon: That is a fair point. When I made the statement to Parliament about the acquisition of the airport—I may have the details somewhere in front of me, but I do not have them immediately to hand—I made the point that, as well as making a big contribution to the local economy, the airport impacts on the wider economy. That was one of the underlying reasons behind our decision to acquire the airport rather than sit back and watch it close, which would have happened last year had we not bought it.

Gil Paterson: Thanks very much.

The Convener: I want to ask about freight more generally. According to the table in our paper, overall freight carriage declined from 40,000 tonnes in 2002 to 10,000 tonnes in 2012. Is that a result of the recession? Do we have any idea why there has been such a rapid decline in air freight? Is that freight now being taken by rail?

12:15

Nicola Sturgeon: It will be a combination of all those things. It stands to reason that the economic recession that we have just been through has had an impact on businesses and therefore will have had an impact on freight. Obviously, rail is a factor in that. One of the many interesting things about aviation that I have been learning is that there has been a change in the way in which freight is transported. The trend is now more towards carrying freight in the cargo holds of passenger aeroplanes rather than in specific freight aeroplanes. A range of factors have contributed to the situation, and you are right to point out the overall reduction in freight. Obviously, we hope that freight will increase and that Prestwick will be competitive in the market.

I do not want to overstate this but, as I have said, there has been a substantial increase in two months of this year compared with the same period last year, which might be down to economic recovery factors. It is far too early to say that that represents a longer-term trend; nevertheless, I am always in the market for signs of good news, so we should take encouragement from that.

Mary Fee: I have a specific question on what is being done to improve passenger numbers. The new route that was launched last month between Glasgow Prestwick and Ireland West Airport Knock is welcome, but the vast majority of travel out of Glasgow Prestwick is with low-cost airlines, which are more likely to suffer from financial pressures. Business travel accounts for only about 8 per cent of passengers at Prestwick, whereas the figure for Glasgow and Edinburgh airports is around 30 per cent. What is being done to introduce new routes and increase passenger numbers at Prestwick?

Nicola Sturgeon: As I said, the restructured management team that will be in place will have the specific responsibility of developing the business overall. Part of that—I stress that it is part of it, for the reasons that I spoke about earlier—will be to seek to increase passenger numbers, which in turn will help to increase income from car parking, retail and other services that the airport provides.

As you said, most of the airport's business is based on low-cost airlines, although the accurate way to describe it is low-cost airline, in the singular. The management team has to work closely with that customer of the airport and with other potential customers. I will not say anything other than that we have to appreciate how challenging that is. We cannot predict that everything will go in one direction. We might see reductions as well as, I hope, increases over the longer term. The marketplace is competitive. That is one of the many objectives that the management team has to focus hard on as it tries to return the airport to profitability.

I have mentioned APD a couple of times, because it is really important. I am heartened that there is growing agreement that we need to have control of APD in Scotland. I cannot overstate the importance to Prestwick's success in attracting greater passenger numbers in the medium to long term of our having the ability to do something about the crippling rates of APD. That is really important—certainly, APD is a significant constraint in relation to Ryanair. That is why it is important that we get the ability to do something about it.

Mary Fee: I was hoping for a more specific answer on exactly what is being done to encourage new routes and additional passengers.

Will there be any announcements on new routes in the near future?

Nicola Sturgeon: I cannot say, although I wish that I was able to do so. I am not the one who is negotiating with airlines—that is part of the job of the management team in getting out there and growing the business of the airport across all its

business streams. However, I cannot predict whether and when such announcements will happen.

The Convener: Before the Scottish ministers purchased Glasgow Prestwick airport, the railway station there was the only one in Scotland to be in private ownership. What plans—if any—do you have for the ownership and development of the station?

Nicola Sturgeon: The station is owned and operated by Prestwick Aviation Holdings. You are right to say that the station is the only independently owned and operated railway station in the whole of Scotland. Glasgow Prestwick is the only Scottish airport to have a direct rail link. Like the airport, the station is not up for sale.

The work that Romain Py did identifies a significant need for a major upgrade to the railway station and to the skywalk—those who are familiar with the airport will know it—that links the station to the airport, in order to improve the facilities generally and to improve the customer experience. The estimated capital cost of doing that work, which is £4.75 million, is not included in the capital programme for the airport for a specific technical reason, which is to do with the unique way in which rail projects are funded. The cost of the project would be recovered through an increase in the regulated access charges that the train companies pay for using the station.

Discussions need to take place with the rail industry to assess the viability and affordability of taking the project forward and the likely timescales for that. There is no doubt that being able to significantly improve the railway station would be beneficial to the capital picture at the airport.

The Convener: Does John Scott, as the local member, have any questions?

John Scott: I thank the Deputy First Minister for her statement, and I welcome her announcement that Prestwick will remain an arm's-length operation and her desire ultimately to return it to the private sector after a period.

I also welcome the £4.5 million in loan funding that was invested in the past financial year and the promise of £10.5 million this year, which, if I have understood the figures correctly, makes a total of £15 million. What will be the financial need in the next financial year and thereafter? Do you have a budget and a projection of capital investment and revenue for 2015-16 and 2016-17? I have other questions, which I will ask in a moment.

Nicola Sturgeon: I cannot give precise projections for financial years beyond this year. One reason why I am keen to have a regular reporting arrangement with the committee is to ensure that, as the ability to make projections becomes more settled, I can keep the committee updated.

As you will appreciate, we need to take into account a number of variables. We need to do further work on the work that led to the stage 2 business plan; we need to keep passenger numbers and flight schedules under review; and we need to assess the success of some of the initiatives to increase revenue at the airport and keep the cost base as low as possible.

Broadly speaking, we expect expenditure on backlog capital maintenance to peak this year and next year. That is understandable, given that the backlog maintenance has been left for a while. Operating costs will depend more on the success of implementing the business plan for the airport. The more successful the plan's implementation, the more quickly the requirement to provide operating costs support will decline over the years. As I have said, I will regularly update the committee as our ability to make projections becomes more definite.

John Scott: We are all aware of the airport's strategic value in financial terms—indeed, Gil Paterson referred to that—and its strategic value to Scotland plc, if you like, given that, as has happened in winters past, it remains open while other airports close because of frost or snow. In that regard, it has a strategic value to the UK. It also has a military value, because of the close connections for military aircraft from America. Is there any way that a value can be attached to that and a price extracted from those who benefit from it? As I understand it, they have hitherto paid for individual incidents that required the use of Prestwick airport but not for it to be open in readiness for such incidents.

Nicola Sturgeon: The short answer is yes. The management team will want to look closely at trying to leverage a financial benefit for the position that the airport is in. As you have rightly pointed out, it is a diversion base for weather and other incidents for the whole of the UK. Part of its big advantage is the length of its runway and the fact that it tends not to be affected by wind and other weather. It is a stable airport.

There is work to be done to maximise and formalise the airport's role in such aspects and to determine whether a financial benefit can be leveraged. I cannot say more at this stage other than to acknowledge that the management team will look to take that work forward.

John Scott: That is fine.

On corporate governance structures, will South Ayrshire Council be represented on the strategic board, the day-to-day running board or both? Do you have a view on or a plan for that? I know that the council is keen to be represented.

Nicola Sturgeon: I have said before but it is worth saying again that all three Ayrshire councils—particularly South Ayrshire Council, because of its close proximity to the airport—have been incredibly helpful to us, and I put on record my thanks to them. We want to continue to include the councils very much in our thinking and planning for the airport's future. There is, for example, potential for South Ayrshire Council to help with some good development, but further work is being done on that.

We still need to discuss what form that inclusion will take and how it will manifest itself in the corporate governance structure, but I am keen to find some way of harnessing what not only the council but the business community and Ayrshire College have to offer. That might sit alongside the corporate governance board structure. In any case, the expressions of support from all of those bodies and the desire to help have been breathtaking, and that is a big advantage. I am keen that we find, somewhere in that structure, a formal mechanism to ensure that everybody who has a desire for Prestwick to succeed and who, perhaps, has something to bring to the table to help us get there has a voice and is able to have that voice heard.

I should say that I would be very happy to discuss with you, as the constituency MSP—

John Scott: And Adam Ingram.

Nicola Sturgeon: And, indeed, Adam Ingram. Interestingly, I think that the runway is in one of your constituencies and the terminal building is in the other.

Adam Ingram: That is correct.

Nicola Sturgeon: That sometimes makes it hard to work out who the constituency MSP for the airport is. I am happy to discuss with both of you the best way of harnessing that local interest.

John Scott: I think that the dividing line might be the white line down the middle of the runway. We might each have half of it.

Nicola Sturgeon: I do not want the two of you ever to have a fight over it in the middle of the runway.

John Scott: I do not intend to. By and large, we speak with one voice on this matter.

On the subject of the airport's name, which Adam Ingram has already raised, I welcome your decision to retain it as Glasgow Prestwick airport. However, with regard to marketing—I think that you described it as the sentimentality of the matter—I suggest a strapline such as "Gateway to Robert Burns country". The airport would still be known as Glasgow Prestwick airport for aviation reasons—which are, of course, the most important

of all with regard to why it should continue with that name.

Nicola Sturgeon: As an Ayrshire girl, I must stress that I was not using sentimentality in a pejorative way.

John Scott: I am sorry—I did not mean it like that.

Nicola Sturgeon: I not only understand but share a lot of the sentiment around this issue, but I think it right to put that to one side for commercial reasons. As I have said, we are going to commission some work on how we might give the airport a Burns theme, and I think that ideas such as the one that you have highlighted might well come into play.

12:30

James Kelly (Rutherglen) (Lab): I want to make two points. First of all, when the issue arose, there was clearly cross-party support in Parliament for the Government to move forward in an attempt to save jobs and support the economy. However, given the magnitude of the investment that has been outlined, it is perhaps surprising that we have had only this update to the committee rather than a statement to Parliament.

Leaving that aside, I just want to understand where we are with the numbers. I understand that, in 2012-13, losses were running at £800,000 a month and the liabilities at the end of the year were £16 million. Is that still the case?

Nicola Sturgeon: First, I am perfectly happy to make a statement to Parliament on the issue. I am here today because I offered to come back to the committee on it, and the committee accepted the offer. I am fully cognisant of the importance of making statements to Parliament, but I suspect that we have probably had a longer and more detailed discussion on the issue around this table than we would have had after a statement to Parliament. I therefore do not think that it is fair to say that doing it this way has actually reduced the amount of scrutiny that I have been subjected to— on the contrary. However, I am more than happy to make a statement to Parliament.

There was, indeed, cross-party support for the Government's action, and I hope that we can continue that. I have never made any bones about how challenging this process would be, nor have I made any pretence that we can make any guarantee about any particular aspect of the airport's array of business activities. However, I have made it very clear that when we were faced with a stark choice of acquiring the airport or watching it close, we decided that acquiring it was the right thing to do. I hope that the support for

that can continue through what will undoubtedly be ups and downs.

I am sitting here in good faith because I want us to be able to return Prestwick airport to profitability, ensure that it can stand on its own feet without Government support and ensure that the taxpayer gets a return on the support that has to be given in the interim. We will have ups and downs and setbacks along the way, but I hope that we will also make some progress. I also hope that we can all put aside our party-political differences and recognise that we are trying to achieve an objective that I think we all agree with, which is to see Prestwick airport survive.

As for your specific question about the losses, I think that when Mark Griffin previously asked a question along the same lines, Sharon Fairweather—to whom I will hand over in a second—was able to give information about some of the figures that were used being partly associated with the write-off of assets and suchlike. The best way to look at this as far as Government investment is concerned is through the figures that I have given today for the investment in this financial year, as they represent the taxpayer contribution to the airport's on-going operation. However, Sharon Fairweather will amplify on how the figure for losses is made up.

Sharon Fairweather (Scottish Government): The one point that I would make is that when we took over the airport we did not inherit the debt. Because Infratil cleared its intercompany debt when we acquired the airport, we started, if you like, with a clean slate. The debt that is building up is basically the loan funding that we are putting into the airport, which the committee has been made aware of.

As the accounts for 2013-14 are being prepared at the moment, we will be in a better position in a few months' time to make people aware of the figures coming out of them. We will need to make a split between those up to the point of acquisition and those beyond that point in November. Once the accounts have been audited by our auditors KPMG, we will be able to issue information on them.

Nicola Sturgeon: They will be there for the committee to scrutinise and ask questions on, as it sees fit.

James Kelly: Are you able to say whether losses are still running at £800,000 a month? Has the £16 million in liabilities been completely written off?

Sharon Fairweather: I would want to see the breakdown of the numbers that you are quoting for the write-off to be able to confirm that. However, as I have said, our position was that all the Infratil intercompany debt was written off on acquisition.

I will come back to you on the running figure for the losses since we acquired the airport. From our perspective, the losses up to the point of acquisition are less relevant because we were not funding them.

Nicola Sturgeon: With regard to our projections at this stage for this financial year, the operating support is as I have set out. As I told members in my update, there is £1 million available—that is the money that we had previously given and which was not spent in the last financial year—and a further £3 million for the remainder of this financial year, which we project will be required for the operating support of the airport.

James Kelly: I appreciate your comment about the moneys going forward. I am just trying to understand what the starting position is.

Nicola Sturgeon: As Sharon Fairweather has said, we did not inherit any of Infratil's debt. I am not trying to be vague about any of this—

James Kelly: I understand that.

Nicola Sturgeon: You will appreciate that, as far as questions about the losses are concerned, the figures will be influenced by passenger numbers, the number of bottles of perfume that passengers buy in duty free every month and so on. When we publish the 2013-14 accounts, you will be able to see the financial position from the point of acquisition, and that will also be the case for this year when those accounts are published. However, what is important from the taxpayers' perspective is the information that I am giving today about what the operational support from taxpayers—albeit in the form of loan funding—will be to keep the airport operational.

James Kelly: I understand that, but if the business is going to become an on-going concern, we need to understand what the losses are just now in order to know what has to be done to recover that position. We also need to know what the liabilities are, as they will obviously be involved in anything that the public corporation has taken on.

Nicola Sturgeon: I repeat that I agree with all of you. This is about how we best report to, and are subject to scrutiny by, Parliament. I have said before that it would be good to have a regular cycle in which I can share this information as fully as possible with the committee. However, with regard to the liabilities—in other words, the debt of the airport—all the Government investment at the moment is in the form of loan funding. That is the debt of the airport. As we did not inherit the previous debt when we acquired the airport, the debt position is the funding that I have outlined today.

James Kelly: Okay. You have talked about £15 million of funding and an additional £5 million that is required for the railway station. I understand what you have said about how that is funded. Given your comment that returning the enterprise to a cash-positive position will take several years, further investment will clearly be required. In your update to the committee, you talked about producing a vision. When will that be produced? I think that what you are talking about needs to be more specific than just a vision; it needs to have the main components of a business plan to allow us to understand not just the initial investment but what further investment is required, when it will be required and what plans are in place to return the airport to profitability.

Nicola Sturgeon: I have described it as a vision document, but that is not to suggest that it will not contain detailed information. It will be as full as possible. I have already answered this question to some extent in response to one of John Scott's questions. I have given very full information today on the investment that will be required this financial year. There will come a point when we will need to project and share with the committee future estimates of investment, but I am sure that you understand that a number of variables are associated with that.

Capital investment is easier to predict because we have a detailed sense of the backlog maintenance position. That is why I have said that we expect this year and the next to be the peak years in terms of capital. However, the requirement for operating support will depend on the success of the business plan and the speed of its implementation. This is an obvious point, but the more successful the management team is in growing the different strands of the airport's business, the less operational support the Scottish Government is going to be required to put in.

I can look ahead in this financial year, as I have just done, and I can make the projection that I have made but, if anything were to happen that substantially changed that, I would expect to come back to the committee. As for future financial years, it all depends, to some extent, on our assessment at a later stage of the success of the early implementation of the business plan.

I am simply making it clear that I want to be in a position to share information with the committee as fully and as timeously as I possibly can. All that I am asking from the committee in return is that members understand the variables at play in making some of the projections.

James Kelly: When will your publication be made available?

Nicola Sturgeon: As I have said—indeed, I have gone into some detail on it—I have asked for

further work to be done around the stage 2 business plan. I hope to be in a position to publish that document within the next couple of months, when that work is completed.

John Scott: I wish to raise a small question of clarification. With regard to the £4.75 million that you have said is required for the skywalk and the station, you said that the work will be funded through regulated access charges from the rail company. Do you mean Network Rail, First ScotRail or the new franchise holder? Are you able to give us a bit more information on that?

Nicola Sturgeon: To be clear, I said that that is how it would be funded; I did not say that there was an agreement to fund it on that basis. We need to have discussions about it. You will appreciate that we are in the midst of refranchising the ScotRail franchise, and clearly that will have implications. However, as ScotRail pays access charges to access the airport, we would be talking about ScotRail, not Network Rail. There would have to be discussions about an agreement to use and increase those access charges to pay for the capital refurbishment of the station over time.

In addition, as you will be aware, there is a commercial arrangement between ScotRail and the airport on discounted fares for flights, depending on the stage of development of different routes. That would be a matter for discussion on commercial grounds in the fullness of time between whoever is the new franchise holder and Glasgow Prestwick.

The Convener: Can you put the investment in context and tell us whether a figure has been put on the cost to the economy and the area of not taking over and investing in the airport?

Nicola Sturgeon: I am sure that I could dig out such a figure, but I cannot remember it. When I made my initial statement to Parliament, I gave the economic benefit figures for the airport to both the local economy and the wider Scottish economy.

Do not misunderstand me: we are making a significant investment in the airport not just to deliver a return for the taxpayer but because lots of jobs directly and indirectly depend on it and because it makes for some of the reasons highlighted by Gil Paterson, who I see is no longer here, a significant impact on the local economy. There is no doubt that the closure of the airport would have had a significant impact on the local economy, and I think that the desire to avoid that situation merits the action that the Government is taking.

The Convener: I thank the cabinet secretary and her officials very much for their evidence.

As agreed earlier, we will now move into private session.

12:43

Meeting continued in private until 12:50.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.