



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 12 November 2014

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
26th 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:

Chic Brodie (South Scotland) (SNP)

James Kelly (Rutherglen) (Lab)

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 Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 12 November 2014

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Maureen Watt): Good morning, everyone, and welcome to the 26th meeting in 2014 of the Infrastructure and Capital Investment Committee. I remind people to switch off all electronic devices as they affect the broadcasting system. I have received apologies from Gordon MacDonald, and Gil Paterson is attending as committee substitute.

Agenda item 1 is a decision on taking items 4 and 5 in private. Item 4 is consideration of the evidence that we are about to take on the draft budget for 2015-16, and item 5 is consideration of the committee's approach to the freight transport inquiry. Does the committee agree to take items 4 and 5 in private?

Members *indicated agreement.*

Draft Budget Scrutiny 2015-16

10:00

The Convener: The second item of business is scrutiny of the draft budget for 2015-16. I welcome Nicola Sturgeon, the Cabinet Secretary for Infrastructure, Investment and Cities; Sharon Fairweather, director of finance, Transport Scotland; Dominic Munro, deputy director, housing sustainability and innovative finance, Scottish Government; and Scott Mackay, infrastructure investment unit, Scottish Government.

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

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities): Yes. Thanks, convener, and thanks for the invitation to be here.

As we see private sector investment start to recover and economic growth strengthen, the role of the Scottish Government moves very firmly towards supporting strategic investments that underpin improvements in productivity, growth and wellbeing over the long term. That includes investments in transport, schools and digital infrastructure. We are also investing in affordable housing, energy efficiency and health facilities to help to address the challenge of poverty and inequality in order to improve wellbeing for some of the most disadvantaged people and places in the country. Those objectives underpin the spending plans that I am about to quickly run through.

First, looking at our capital investment programme, I note that the objectives are very focused on sustaining the economic recovery. We will deliver more than £8 billion of investment over 2014-15 and 2015-16 that will support around 40,000 full-time equivalent jobs. That is, of course, despite some significant cuts to our capital budgets. To help to address and compensate for those cuts, we are extending our revenue-funded investment through the non-profit-distributing programme by £1 billion, taking that programme to £3.5 billion in total.

Out of that additional £1 billion, we are investing more than £300 million in schools for the future and £400 million in additional health investment. We are also investing in two new college campus developments. We continue to directly support infrastructure spending through switching support from resource to capital, utilising capital receipts, and the regulatory asset base rail enhancements. We do all that while continuing to maintain our commitment to allocate no more than 5 per cent of our future departmental expenditure limit budget on the costs of revenue-funded investment.

Our annual progress report on the infrastructure investment plan shows that 24 infrastructure projects worth £625 million completed construction in 2013, and we are making good progress in delivering the NPD investment programme, with almost £650 million-worth of projects beginning construction in 2013-14 alone.

We continue to make excellent progress in taking forward our key investments. The Queensferry crossing is on course to be delivered in 2016. We have secured a further £50 million of savings, taking the total reduction to the cost estimate to £195 million. Work progresses towards completion—again, on time and on budget—of the new south Glasgow hospitals project. The schools for the future programme—further expanded, as I said, through the NPD extension—will now deliver more than 100 newer, refurbished schools by 2019-20; 17 of those schools are already complete and operational. Lastly, construction is under way to deliver significant improvements to the M8, the M73 and the M74.

Turning briefly to housing, I note that the budget enables us to deliver on our commitment to provide at least 30,000 new affordable homes in the current session of Parliament. Since the publication of the draft budget for 2014-15, the budget for housing, regeneration and welfare has been augmented to reflect the deployment of additional funding of £200 million, which includes additional loans and equity funding of £160 million to support the housing sector and additional resources for regeneration and affordable housing. We have also included in the draft budget £35 million for discretionary housing payments in order that local authorities can mitigate the impact of the bedroom tax in 2015-16.

Turning quickly to transport, I note that on-going investment in transport connects regions and people to economic opportunities, so it is vital in contributing to national social cohesion and reducing inequality between different parts of Scotland. Our investment in transport infrastructure, such as the Queensferry crossing and the dualling of the A9 between Perth and Inverness, plays a key role in creating the best possible conditions for business success. As I said, a cumulative total of £195 million-worth of savings has been released from the Forth replacement crossing project since construction started, which means that the 5-mile stretch of carriageway between Kincaig and Dalraddy on the A9 will be the first of the 12 dualling schemes to be brought forward; it is due to be completed in 2017, six months earlier than anticipated.

We have increased our planned expenditure for air and ferry services, recognising their importance and reflecting the acquisition of Prestwick airport, which we will come on to talk about later. We are

also increasing our expenditure on support for sustainable and active travel by a further £10 million, to £25 million. We have now invested over £84 million in active travel since 2011 as well as publishing our plan to replace petrol and diesel vehicles with electric vehicles by 2050, backed by over £14 million of investment until March 2016. In contrast with that, we have been able to reduce the budgets for rail franchise and rail infrastructure to reflect the efficiencies that have been secured through the new franchises, which have of course also secured improvements to services.

Finally—you will be happy to know, convener—I will touch briefly on Scottish Water. At the end of September, I wrote to the committee to inform it that I had agreed Scottish Water's investment priorities for the next regulatory period, which as the committee will be aware runs from 2015 to 2021, and I agreed the principles that should underpin customer charges. The investment programme, which is worth £3.5 billion, is a massive programme of investment that will support growth by allowing new customers to connect to public services, and it will enable mandatory standards in relation to drinking water and the environment to be met. In addition, the scale of investment will support some 5,000 construction jobs across every part of the country.

The Government's contribution to that investment programme is £720 million of new loans, and in 2015-16 we will lend £80 million in support of the first year of the new investment programme. Charges for the next period are due to be confirmed by the end of this month by the Water Industry Commission for Scotland, which indicated in its draft determination in March that household charges will be capped at 1.6 per cent and business charges will be frozen in nominal terms.

That is a quick run-through of the key headlines of the budget. I am happy to take questions from the committee.

The Convener: Thank you for that quick run-through. I will start off the questions.

To a large extent, both the committee and the witnesses whom we have heard from on the budget have welcomed the increased expenditure on investment in the budget. However, it is estimated that most of the increased expenditure is on projects and programmes that will, in the short to medium term, increase Scotland's greenhouse gas emissions, and there has been a small reduction in expenditure on projects and programmes that have potential to reduce emissions in the medium to long term. As we all know, Scotland missed the annual climate change targets for 2010, 2011 and 2012.

Given that your portfolio contains many of the policy levers, in what ways will the spending plans that are set out in the draft budget for the portfolio help Scotland to get back on track to meet the forthcoming annual climate targets?

Nicola Sturgeon: I will try to answer that with some key points. If it is okay, I will touch on transport and housing separately because they are both important areas of Government responsibility for meeting our climate change targets.

As a preface to my more detailed remarks, I point out that meeting those targets remains a key objective and priority of the Government, and that objective runs through all our budgetary decision making. I will take some key points from my portfolio that are pertinent and important to reducing greenhouse gas emissions and achieving our targets.

We are doing a number of things on transport, many of which were manifesto commitments. For example, we are developing the infrastructure to support electric cars and increasing the proportion of transport spend that goes on low-carbon, active and sustainable transport. Those are key current priorities that will result in emissions savings flowing from investments that we are making now.

We have committed substantial funding to sustainable and active travel over the current spending review period. Between 2012-13 and 2014-15, £200 million will have been invested to reduce the carbon impact of transport, and on current plans the figure will be more than £300 million for 2013-14 to 2015-16.

We are also doing a lot to develop different networks and some strategic partnerships to reduce transport emissions. For example—this has a long title, so forgive me in advance—“Switched On Scotland: A Roadmap to Widespread Adoption of Plug-in Vehicles” was developed in conjunction with a wide range of partners and launched just over a year ago. We have also instigated an annual cycling summit with local authority leaders to lead on our cycling action plan and monitor progress on it.

It is also worth mentioning that our future transport fund supports a range of sustainable transport infrastructure improvements: low-carbon vehicle fuelling and charging infrastructure; green buses; shifting freight from road to rail and sea; and cycling and walking infrastructure. The budget for that fund in 2015-16 will be up from that in 2014-15—it will go up from £18.75 million to £20.25 million.

The energy efficiency of our housing plays a significant role in meeting our climate change targets. We are making good progress on improving the energy efficiency of our housing

stock, which has improved steadily since 2007. We still have a lot of work to do, but we are making progress. The Scottish house condition survey indicates that, in 2012, 44 per cent of homes had a good rating in their energy performance certificates, which compares with only 16 per cent in 2007. That gives some idea of the scale of progress.

Scotland is outperforming the rest of the United Kingdom on the delivery of energy efficiency measures through the energy company obligation—ECO. Nearly 12 per cent of the total measures have been installed in Scotland although we have just over 9 per cent of the households. We estimate that investment under ECO in 2013-14 was about £170 million and we have a continuing commitment to just under £80 million of Government funding for household energy efficiency.

I could go on—and am happy to go on for as long as you want me to—but those are some examples that will help to give a flavour of the approaches that we are taking to ensure that we deliver spend and design interventions across transport and housing that ensure that we have the right transport infrastructure and housing provision, but that we achieve that with a view to the environment and reducing greenhouse gas emissions.

The Convener: Thanks. I am sure that my colleagues will drill more deeply into that.

10:15

Jim Eadie (Edinburgh Southern) (SNP): Good morning, cabinet secretary and colleagues. The committee has been considering the budget's impact on reducing our greenhouse gas emissions and whether the Government is in a good place to achieve our ambitious climate change targets. In its report on the 2011-12 draft budget, our predecessor committee said:

“any future carbon assessment brought forward by the Scottish Government should adopt a methodology that would enable comparisons to be made from one year to the next, to aid an understanding of how emissions from the budget are changing over time.”

However, in evidence to us, a number of witnesses said that it is difficult to tell from the budget document what impact the spending plans will have on Scotland's climate change emissions targets.

I am aware that there is a related document, which sets out how the spending plans will support delivery of the Climate Change (Scotland) Act 2009 implementation plan, but there was quite a gap between the publication of the budget and the publication of the more detailed analysis.

Have we got it right yet? Has Government enabled the Parliament and external observers to assess whether it is on track to meet its targets?

Nicola Sturgeon: I do not think that we should sit here assuming that we have got everything right and there is nothing that we could do better in the substance of what we are doing to reduce greenhouse gas emissions and what we do to report and monitor progress. We will continue to listen to what the committee and expert stakeholders have to say about how to improve how we do all of that.

I think that you referred to the document that is related to the budget, which sets out how our spending plans support delivery of Climate Change (Scotland) Act 2009 implementation. The document was published last week. I read comments in evidence to the committee about a delay in the document's publication. There has been no delay at all; the information has been published and the Minister for Environment and Climate Change is currently writing to committee conveners about it. The document is published as soon as is practically possible after we publish the level 4 budget data on which the information is based—that allows time for additional parliamentary analysis. The information is available now and it gives the committee the opportunity to look in more detail at how our spending plans relate to our obligations under the 2009 act. I ran through some of the headlines in that regard.

Can we do better? We should always try to do better and to improve and refine our approach. Some organisations have pointed to the use of carbon accounting methodologies to monitor trends over time. The Government is keen to do work in that regard, not just to enable us to monitor trends better but to ensure that that kind of exercise is consistent across the public sector.

Jim Eadie: On the question of a delay, I am content with your explanation, and our witnesses will have heard what you said, although I will just observe that we and our witnesses have not been able to factor that document into our budget scrutiny. However, our witnesses are intelligent people and they will find ways of communicating with the committee if they want to raise issues.

The wider point is that investment in infrastructure, such as active travel infrastructure, can reduce our greenhouse gas emissions and have other beneficial impacts. Active travel has an impact on health spending, and improving the energy efficiency of existing homes can reduce fuel poverty. When you prioritise and allocate spend, how do you ensure that you take such issues into account?

Nicola Sturgeon: We do that partly by common sense and partly through a systematic process. The Government has a policy appraisal toolkit that requires that the financial, economic, welfare and distributional benefits of any potential intervention be considered. The Scottish transport appraisal guidance contains a section on policy integration impacts, which involves looking at not just the financial or climate change impacts but impacts on disability, health, rural affairs and social inclusion. Right across the areas in the budget, we try to assess and factor into our decisions the various impacts that a particular policy intervention will have.

I absolutely agree with the premise underlying your question. If we improve levels of cycling and walking and the use of sustainable transport in general, we will have a positive impact not only on the environment but on people's health and wellbeing.

Housing is another such area. Investing in the energy efficiency of housing will have a positive impact on greenhouse gas emissions over time, and it will also improve people's health and wellbeing as the cost-effectiveness of heating will enable them to live in warm and watertight homes.

As an illustration, our analysis suggests that for every £100 million that we spend on energy efficiency measures, we create more than 1,000 jobs throughout the country, so there is an economic impact, too. Those interrelated policy impacts feed into our decision making on all budgetary issues.

Jim Eadie: You mentioned carbon accounting methodologies. In developing those methodologies to monitor trends, is the Scottish Government undertaking any work to help to standardise them so that all the work can be appropriately cross-referenced?

Nicola Sturgeon: Through the duties on public bodies under the Climate Change (Scotland) Act 2009, the Government is working with local authorities and the wider public sector, including health boards, education services, higher education institutions, non-departmental public bodies and Government agencies, to look at how we standardise and make consistent the monitoring and reporting of operational emissions from the public sector estate. I will not attempt to go into detail on all the complexities to which I will refer. Carbon accounting is a complex topic, and the methodology that is adopted can depend on the purpose and nature of the monitoring that is undertaken.

UK and international guidance is available for organisations to use when they are measuring and reporting on environmental impacts. All organisations should use approaches that are

appropriate and proportionate to their activities. Our work involves ensuring, as far as possible, that the use of methodologies, reporting and monitoring are consistent across the public sector. In years to come, that will be useful to a committee such as this one and will help to ensure that we meet our targets.

Jim Eadie: My final question is on active travel. In their evidence to the committee, Spokes and Transform Scotland pointed to the need for greater clarity on how the funds are to be spent on active travel, because that is not always clear. I readily concede that that question is perhaps more for officials than for you, cabinet secretary but, nonetheless, the issue causes those organisations concern.

The organisations have given an example. There are two funds—the sustainable and active travel fund and the future transport fund—but how much of the money in those allocated expenditures is spent on active travel is obscure. It strikes me that, if the Government is increasing investment—as it says it is and as I believe it is—it is not necessarily getting the credit for that, as it is not clear in the budget headings how much of the money is being spent on active travel.

The organisations have suggested that, to support greater transparency, the Government could replace those two budget lines with one for active travel and another for other future/green transport. Would the Government be willing to consider that?

Nicola Sturgeon: I am happy to take that point away and consider it. I recognise the issue that is being raised. As you indicated, it is not in the Government's interest for the money that we are spending to be obscured in the mists of a complicated budget document. If there is a way in which we can make that more transparent and make it easier for people to see and understand exactly where the money is going, I am happy to go away and consider it.

The one caveat that I have inserted into such discussions in the past is that we have an obligation to ensure that the committee and the Parliament can look at the budget year to year and differentiate between the lines to see what the trends are. If we change the way in which budget lines are presented, we can run into criticism from the other end that we are making it difficult to compare year on year. That stated, I am more than happy to consider the issue.

There is an even deeper issue than the one that you have outlined. Other parts of the budget and other activity include support for sustainable and active travel that is not shown in either of the budget lines that you named. I will give one example. There is a lot in the new rail franchise

about supporting infrastructure for cycling at stations and on trains, which will not show up in either budget line that you mentioned but is nevertheless support for active travel that is supported by Government investment. Perhaps, in addition to what you have asked me to consider, we need to consider how we draw out all the support for that area from the different parts of the budget to make it easier to see the totality.

The Convener: It is time to move on to transport issues in general.

Mark Griffin (Central Scotland) (Lab): The consensus among the witnesses was that the Government has a strong record of support for sustainable and active travel, that there are a lot of good pilot projects and that strong work is being done by local authorities and universities in developing those projects. That work could make a difference to whether the Government achieves its greenhouse gas emission targets. However, the consensus was also that there is a concern that those projects are not being rolled out across the country quickly enough, that more funding is needed and that the Government should look at benchmarking with other northern European countries and move towards allocating 10 per cent of the transport budget to sustainable and active travel, particularly given the additional social and health benefits. Does the cabinet secretary agree with the witnesses who have called for more funding in the budget line?

Nicola Sturgeon: I sympathise with the sentiment behind those comments and your question. I can say categorically that the Government is anxious to maximise the support that we give to sustainable and active travel, not just because of its impact on the environment but because of all the other benefits that Jim Eadie referred to. That is why we have been increasing the budget line. Members will see in next year's budget a substantial increase in sustainable and active travel funding and the future transport fund, although I have said that I will look at how that is presented.

We are doing what we can within a fixed budget. We have to make choices and, every time we increase spending on one thing, we have to reduce investment elsewhere. We have put forward a draft budget that gives proper priority to the issues, but we have a willingness and an appetite to go further in the future, if we can find the resources.

The first part of your comment was about the speed at which pilot projects are scaled up and rolled out and about benchmarking ourselves against experience from other countries—you mentioned Nordic countries in particular. I have a lot of sympathy with that and I would apply that principle not just to sustainable and active travel

but across the Government. From my responsibilities as health secretary, I can think of many examples, particularly around e-health—although the issues are very different—when we have not always been as quick as we could have been to scale up experience from small trials. We can do more and we should challenge ourselves all the way along.

10:30

Another issue that I picked up as I read through the evidence to the committee was a commentary about long-term certainty of funding. I understand exactly where that point comes from. We have been keen to set out a long-term strategic commitment to sustainable and active travel, not just through the recent track record on funding that I spoke about but through the “Cycling Action Plan for Scotland 2013” and the commitments in the second report on proposals and policies—RPP2. What we run into is a UK spending review timetable that means that we cannot commit to more than a one-year budget at this time. We have a constraint but, within it, we want to give as much certainty through long-term strategic plans as we can. As I started out by saying, we want to give as much support to sustainable and active travel as we can within the constraints of our overall budgets.

Mark Griffin: One criticism that has been made is about the lack of long-term certainty, particularly when it comes to match funding. Such certainty would be beneficial. The Sustrans Scotland submission referred to Transport Scotland allocating £19 million that required to be match funded. That was well outbid—match funding for £23 million of applications was provided. The appetite is there among local authorities, so long-term certainty would be beneficial, although I recognise the constraints because of the UK spending review.

Another concern—it was raised particularly by Sustrans and Stop Climate Chaos Scotland and it goes back to your point about the balance of spend in the budget—was about the focus on spending on roads. Does the current spending on the road-building programme represent the best use of Government funds in the long term to tackle greenhouse gas emissions and congestion?

Nicola Sturgeon: A certain Conservative member was nodding vigorously as you posed that question to me. Our road-building programme fulfils a number of our objectives within the overall purpose that we set ourselves as a Government, which is to make the country more successful through increasing sustainable economic growth. Our on-going motorway and trunk road programme will return significant benefits to the country. It will deliver substantial and direct

economic savings to businesses and individuals from better transport links. We will also see benefits through greater road safety and better accessibility. The benefits of our current transport investment programme are there for all to see.

The crux of your question is whether that runs counter to our objectives to reduce emissions and meet our climate change targets. It is fair to say that, all other things being equal, if road kilometres travelled increase for whatever reason, that will lead to an increase in road emissions. The thing is that not all other things are equal; the other side of the equation is not in equilibrium. The RPP sets out the various ways in which we are intervening to cut emissions per road kilometre travelled and the other important measures that we are taking to encourage mode switching, so that we can bear down on the number of road kilometres driven and cut down congestion and, in turn, emissions per kilometre. It is not the case that all other things are equal and that, if we invest in roads, emissions will go up.

I will give an example of the effect of what I am talking about that might help the committee. Average emissions from new cars have reduced year on year by more than 20 per cent in the past decade. In 2012, which I think is the most recent year for which we have figures, 55 per cent of new cars registered in Scotland fell into the category of emitting less than 130g of CO₂ per kilometre. Ten years ago, that figure was 3 per cent. We are improving on that side of things so that we are not in the situation where other things are equal.

I accept readily that an on-going tension runs through this area. I also know that the country needs a modern and fit-for-purpose transport infrastructure to keep our economy strong and competitive. We must balance that with the measures that we are taking to cut emissions through the fuel efficiency of cars on the road and encouraging people where possible not to use cars and to switch modes, which I spoke about earlier. Those are two sides of an equation that we must keep in balance, and we try to do that through all the decisions that we take.

The Convener: We will move on to housing.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): Good morning, cabinet secretary. You mentioned in your opening remarks a significant increase of about 37 per cent in the housing and regeneration budget. You will be pleased to know that the witnesses whom we have had before us have warmly welcomed that and that they agree with the Government's general direction on the policy. However, there were concerns about whether the increased budget would be targeted at the appropriate housing mix to meet housing demand and targeted at optimal greenhouse gas reductions across Scotland's

housing stock. How do you respond to those concerns?

Nicola Sturgeon: Before I address the housing mix and how we ensure investment in houses that meet energy efficiency standards, I will say that it is important to reflect on the substantial increase in investment in the overall housing and regeneration budget and particularly on the affordable housing supply programme budget for next year of £390 million, which is an increase of about 21 per cent on the average of the previous three-year period. I hope that that is a strong signal of the importance that the Government attaches to housing for not only social purposes but economic recovery purposes.

On the appropriate housing mix, we take a resource-planning approach that puts councils in the driving seat to decide their strategic approach and the appropriate mix of housing in their area. That enables councils to be flexible and to look strategically across their area to determine what is required. They then make proposals to the Scottish Government for social and affordable housing developments, and all that should be based on their local housing strategy. Our approach is not for the Government to look across Scotland and decide what housing developments are needed, where they are needed and with what mix of house types and tenures. Local authorities are in the best position to assess, on the basis of their local housing strategies, what their areas' needs are.

As for how we contribute to building homes that are more sustainable and energy efficient, we are strongly encouraging developments to be built to a higher level of sustainability than the current minimum requirements demand. We offer an additional £4,000 subsidy per house through the affordable housing supply programme, so additional money can be accessed for houses that meet a higher standard of energy efficiency and sustainability.

All new homes that are built under the affordable housing supply programme will help to make a significant contribution to reducing greenhouse gas emissions, because they emit about 70 per cent less CO₂ than an equivalent house built in, say, 1990. That helps not only to reduce emissions but to reduce fuel bills for people who live in those houses. From October next year, the improvement to new-build energy standards will reduce carbon dioxide emissions by about 21 per cent for new dwellings in comparison with current levels, and the standards will be slightly more demanding than the standards set across the rest of the UK.

I hope that that gives some sense of what we are doing. Our affordable housing budget is trying to get as many houses built as possible, but how

we allocate the budget is intended to ensure that we get investment to where it is needed and in the way that is needed and that we build houses in a way that contributes to the climate change target requirements.

Adam Ingram: I will stick to energy efficiency. What investment does the Scottish Government believe is necessary to cut emissions while helping to eradicate fuel poverty? You mentioned that just under £80 million is dedicated to energy efficiency measures in the budget. Some witnesses have indicated that, although that investment is welcome, it is short of what is needed. Existing Homes Alliance Scotland referred to a figure of £125 million, and that was before we heard about the loss of funds for ECO measures to improve existing housing stock, which you also mentioned. We understand that some £50 million per annum has been taken off that ECO funding. There is an issue in relation to sustaining, maintaining and improving funding for energy efficiency measures in current housing stock. What is your response?

Nicola Sturgeon: There have been changes to ECO and there are changes under way to ECO that, in a variety of ways, have complicated things and made them more difficult. Some changes have been welcome, but one of our frustrations is that we do not control the overall design of those energy efficiency schemes. I am on record as saying and I will continue to say that it would be far better if we were able to be responsible for and design those schemes ourselves. That would allow us to integrate and align them with our own activity much more easily and much better.

On the scale of funding, as I said, we are committed to spending £79 million a year through our home energy efficiency programmes. The key thing is that that investment is intended to lever in additional investment from ECO and other sources. We intend to create a combined fund of about £200 million a year. Exactly what that will be will depend on our success at leveraging in the extra money, but we have a good track record on that.

I have mentioned the recent statistics from the Department of Energy and Climate Change that show that Scotland is outperforming the rest of Great Britain on the delivery of measures through ECO. I will not go into all the stats again but, as I said, we have about 12 per cent of the measures although we have just 9 per cent of the households.

Investment under ECO, taken with our budget allocations for our energy efficiency programmes, the warm homes fund and the green homes cashback scheme, would indicate a total investment of about £260 million, which is in excess of the £200 million that I spoke about. That

is what we have to spend and I think that we can do an awful lot with that.

As with any other part of the budget, we would like to allocate more if we had more. However, I think that I am correct in saying—if I am not, I am sure that somebody will correct me, if not today then in the future—that we are the only jurisdiction in the UK that is still providing such investment. Certainly England no longer has Government-funded energy efficiency programmes. Our commitment to £79 million of Government investment every year sets us apart from some other jurisdictions in the UK.

Adam Ingram: I hope that I am not talking out of turn in saying that the consensus on the committee is that energy efficiency in our homes should be a national infrastructure priority. I imagine that that will form part of our report on the budget.

Nicola Sturgeon: I would welcome that, because I agree that it should be a national priority. In fact, it is a national priority, and some of the facts, figures and information that I have given suggest that we are doing reasonably well on it, if I can put it as modestly as that. However, if we had more responsibility for the design of a scheme such as ECO and were able to align it better with Government funding, we could do even better than we are doing. I hope that, in the not-too-distant future, we might have that responsibility.

10:45

With that responsibility, we could also do something that I spoke about during the referendum campaign: we could decide to fund the main part of our energy efficiency programme not through energy bills but through central Government funding. That would take some pressure off energy bills and allow the funding to be secured more progressively than it is when the cost of it is put on everybody's energy bill regardless of their income or circumstances. There would be many benefits to the Parliament having more responsibility in the policy area.

Mary Fee (West Scotland) (Lab): I have a supplementary question that follows on from the previous question on energy efficiency. It has been suggested in evidence that the green innovation funds could be used to greater effect to incentivise builders to go beyond minimum standards and provide financial support for smaller building companies. My question partly concerns the chicken-and-egg principle. For companies to energy proof the homes that they build by putting all the measures into them—which need to be reflected in the price—house buyers have to understand the benefits of buying such houses. The demand needs to exist, people need to

understand the benefits and we need to use the funds better. How can we use funding not only to incentivise and encourage the building of greener homes but to educate people about the value of buying them?

Nicola Sturgeon: That is a good question. Through our various funding streams, including the affordable housing supply programme, we are trying to incentivise house builders to go beyond minimum standards, although that was not the central premise of your question. In spring next year, we will consult on draft minimum energy efficiency standards for owner-occupied and private rented sector homes. Minimum energy standards can help to drive and stimulate demand for low-carbon homes.

We are engaging actively with stakeholders on the opportunities to increase demand to help to drive the market. That involves work with consumers to identify what matters to them when they buy a home and to raise awareness and understanding among home buyers of the benefits of buying low-carbon, energy-efficient homes, not only for the environment but in terms of the cost of heating their homes.

If the committee is interested in some of the work that is being done on demand stimulation and consumer awareness, we can provide some information on that. It is an important aspect of the work on energy efficiency.

Adam Ingram: I will develop the theme of the need to stimulate the demand for energy-efficient housing. Some of our witnesses have suggested that the Scottish Government should consider using its tax-raising powers to stimulate such demand by, for example, using the land and buildings transaction tax bands to incentivise energy-efficient housing, or using energy ratings as conditions in any help-to-buy schemes.

Nicola Sturgeon: I am very open to considering how we design our schemes and use the powers that we have to improve energy efficiency and stimulate demand. The issue was discussed during the passage of the Land and Buildings Transaction Tax (Scotland) Bill. There were amendments to the effect that the tax should be used to try to stimulate the take-up of energy efficiency measures. The Parliament chose not to go down that road for a variety of reasons but, in general, we should consider how we do that. There are often good reasons why a proposal will not have the desired effect. That was our judgment on the proposals on the Land and Buildings Transaction Tax (Scotland) Bill.

Tax aside, we should be open minded about how we design energy efficiency schemes, fund house building and direct the resource that we

have to stimulate demand and people's appetite for taking up energy efficiency measures.

The Convener: We move on to digital infrastructure.

Alex Johnstone (North East Scotland) (Con): We have spoken to expert witnesses over the past couple of weeks. Although there is a certain satisfaction with the level of investment in digital infrastructure, people clearly think that that is a field in which a little more could go a very long way. Cabinet secretary, are you convinced that there is sufficient investment in digital infrastructure?

Nicola Sturgeon: I am satisfied that there is significant—and necessary—investment in digital infrastructure. You are well aware, because we have spoken about this before in the committee, that the vast majority of the investment that we are currently making is in the delivery of the two next-generation fibre-optic broadband projects that are being delivered by BT. Total public sector investment in the two projects over five years is almost £300 million—it is a significant investment—and, of course, there is investment by BT on top of that.

Further investment has been announced. Through community broadband Scotland, we are investing in community schemes in areas where next-generation broadband will probably not go. Those figures do not appear in my portfolio, for reasons to do with budget history. Although the responsibility for digital infrastructure lies with my portfolio, the funding lines are shown in the rural affairs portfolio.

There is significant investment in providing infrastructure. That investment is absolutely necessary, not least because of what it is doing to bring a backhaul network to many of our island and remote communities for the first time, but on its own it is not sufficient to deliver our 2020 vision of world-class digital infrastructure. Ahead of the current investment, we recently charged the Scottish Futures Trust with identifying technical options for delivering connectivity—any time, anywhere, using any device—and with exploring financial models that might be appropriate for future investment. Initial work is under way on that and an analysis of options will probably be available in spring, which will provide us with the basis for future investment plans.

As well as investing in the provision of infrastructure, there is a whole other issue, which is integrally connected, about how we increase and improve the uptake of digital infrastructure.

Alex Johnstone: I do not want to dwell on my personal grief, which I have maybe mentioned to you—

Nicola Sturgeon: Once or twice.

Alex Johnstone: I live in the centre of a town that got high-speed broadband in a blaze of publicity two years ago, but I cannot get it, apparently because I live too near the exchange—

Nicola Sturgeon: As I told you, we have deliberately excluded you. [*Laughter.*]

Alex Johnstone: I suspect that that is the case.

My problem highlights the fact that people across the country have encountered a range of difficulties. What steps are being taken to improve access to the superfast fibre network for individuals and businesses, so that Scotland's digital infrastructure potential can be realised in short order?

Nicola Sturgeon: For the record, I should make it clear that we did not deliberately exclude Alex Johnstone—just in case in years to come people look back at the *Official Report* and think that we were a cruel Government. Did I write to you about your particular issue? I might be thinking of someone else.

Alex Johnstone: I do not think that I have seen a letter from you on that.

Nicola Sturgeon: I might be thinking of another letter. I will be happy to address the particular issue in your locality, in the fullness of time.

More generally, infrastructure investment is vital, because we cannot give people access if the infrastructure does not exist. Also vital is investment in looking at how we go beyond where the current investment will take us, to the parts of the country that are particularly hard to reach. In addition to our main investment there is top-up investment, which will help us do that.

We have increased funding for community broadband Scotland from £5 million to £7.5 million and are working with communities to look at bespoke solutions that will help them in their localities. We are also investing in demand stimulation, because there is no point in having the infrastructure if we are not equipping and enabling individuals and businesses to take full advantage of it. There is an on-going programme of work, from the provision of the infrastructure through to looking at the skills and ability of businesses in particular to take advantage of it.

My very strong view is that broadband infrastructure is as vital in the modern age as good transport infrastructure. Despite the investment that we are putting in, the geography and topography of Scotland inevitably mean that there will still be people who struggle to get the quality of access that those of us who live in urban areas take for granted. However, through our investment we are making a step change in terms of who and

how many people will be able to access next-generation broadband, and that work is significantly ahead in parts of the country where the market itself would never have taken us.

Alex Johnstone: My final question on this issue relates to some of our discussions on the idea that further regulation might be needed to open up infrastructure to competition. Is the regulatory environment in Scotland today adequate to take forward what we need to do, or in the longer term do we need to look at regulation to open up competition?

Nicola Sturgeon: Are you talking specifically about digital infrastructure?

Alex Johnstone: Yes.

Nicola Sturgeon: Undoubtedly, improvements could be made. I do not want immediately to start banging a more-powers drum, but there is an issue here about the split of responsibilities: we have responsibility around fixed broadband, but mobile telephony is still largely the responsibility of the UK Government. On mobile telephony, for example, we should be able to pick up any signal anywhere. Lots of discussions are going on, not only with the Scottish Government but more generally, about how regulation in this area should develop. Undoubtedly, there will be different—and arguably better—ways to regulate in order to get people the best services.

The Convener: I will follow up Alex Johnstone's point. BT and the Government are saying that various communities are now connected to superfast broadband, but there is a disconnect between that infrastructure and people realising that they have to take a step themselves to get superfast broadband into their home. Is enough being done by the providers to encourage people to take that step and access the infrastructure that is being put in?

Nicola Sturgeon: I hope so, but I am certainly very happy to look at that on an on-going basis. As I keep saying, having the infrastructure is one thing, but ensuring that people are accessing and using it is another. Of course, the infrastructure that BT is providing is open source, which means that people do not have to have BT as their provider and can use any provider.

As I said, I am more than happy to look at the issue. We are trying to be as open and as transparent as possible around the development of the infrastructure. For example, there is a website where people can look at progress. However, we must be very careful that we do not raise expectations in a particular community before the proper surveys and technical work are done to ensure that that community will be a beneficiary of the project. Our approach is cautious but open and transparent.

I am happy to look at whether people are getting enough information to be sufficiently aware of how to access the infrastructure, to see whether there is more that we can do, or encourage our partners to do, to increase awareness.

Gil Paterson (Clydebank and Milngavie) (SNP): I have a question about future opportunities and innovative ideas. Can you highlight any innovative practice or programmes that the Scottish Government is considering for future investment or infrastructure plans that could contribute to meeting its greenhouse gas emission targets, tackle traffic congestion and support sustainable and active travel?

11:00

Nicola Sturgeon: There is a whole range of innovative approaches that we are trying to take across Government and in this portfolio in particular. I could run through a range of different innovative funding methods that we are using on house construction, which are not solely about reducing greenhouse gas emissions, but about how we get more houses built for the resources that we have available. In relation to greenhouse gas emissions, as the policies in RPP2 are rolled out and evaluated, findings emerge as to which are the more successful measures, which allows us to look at how we can be more innovative.

Technology does not stand still, so we need to keep abreast of it. The smarter choices, smarter places pilot study identified that mode share changes are achievable in targeted populations, so there is a further round of funding for that next year. That will highlight what we think are the most appropriate and effective approaches to take.

We are doing work on alternative fuels and are actively supporting the development of hydrogen as a fuel source. Aberdeen will soon see the first operational hydrogen-fuelled bus, and I understand that Aberdeen City Council already has two hydrogen-fuelled vans in its fleet. Mobile technology and the ability to use apps to plan journeys better, make use of smart ticketing and pay for services are other examples of how we are trying to be innovative, both in the way services are delivered to make them easier to access and in the way we encourage people to shift from cars to public transport and to use more fuel-efficient means of transport.

Those are just a few examples. I could send the committee information in much more detail about how we are trying to be innovative while ensuring that we are not left standing as technology moves on.

Gil Paterson: Thank you.

What are the Scottish Government's likely spending priorities for the next two years in order to meet the GHG emissions reduction target of at least 42 per cent by 2020?

Nicola Sturgeon: Our spending priorities for next year are set out in the budget that we are discussing. As I said in response to Mark Griffin's question, at the moment, because of the UK spending review cycle, we cannot set out spending plans beyond one year.

Much of what I have been talking about today will form our spending priorities: making sure that the country has the right infrastructure to support sustainable economic growth; meeting our emissions reduction targets; ensuring that we are providing the houses that people need, where they need them, with the right mix of tenure; and making sure that we have a transport infrastructure that is both servicing our economy and supporting the shift in how people travel, which will further support our climate change obligations. Those are our broad priorities in this portfolio. How they will be supported by specific spending plans will need to wait until the other side of the UK spending review, so that we can set them out in the context of that knowledge.

The Convener: You have mentioned the Government's new borrowing powers, the 10 per cent allocation and the £304 million that the Government intends to borrow in 2015-16. How much of that will be—or has already been—allocated to infrastructure, and what projects will figure in that spend? I am not clear whether part of that is included under the level 2 financial transactions.

Nicola Sturgeon: The borrowing capacity that we will have will support our overall capital programme, so it is not allocated to individual projects. Members will not be able to look at the budget and see that some of that borrowing is going to a particular hospital, road or school. That capacity is taken into account in the overall assessment of what we are able to invest across our capital programme.

The simplest way of putting it is to say that looking ahead to the borrowing powers has enabled us to increase the total level of investment that we estimate we can undertake during the period that we are talking about. That increased level of investment is reflected in the draft budget that the committee is scrutinising today.

It is important to stress that the borrowing powers are not limited to individual project finance. We will draw down the £304 million that will be available in 2015-16 as we require it. That resource will then sit with all our other available resources to support the overall investment programme that is reflected across the budget.

Mary Fee: I have an additional question on housing, with regard to the increase in the level 4 figure for housing supply. The resource is expected to provide 6,000 affordable homes, of which 4,000 will be social rented homes, and it will allow the Government to continue to support innovative finance methods in the housing sector.

Do you have any more detail on the exact mix of the 6,000 homes that will be built? Help to buy has been very successful. Can you give some detail on the other types of innovative finance methods that you intend to use?

Nicola Sturgeon: My response to the first part of your question is that the majority of the homes that will be supported through the affordable housing supply budget—which, as I have already said, is £390 million—will be social rented homes. There will also be homes for mid-market rent, and some opportunities for shared equity provision. The homes will be delivered mostly through grant funding but there will also be some loan funding, for our open-market shared equity scheme, for example. We also give guarantees through loan funding for the national housing trust.

An outturn report from the affordable housing supply programme will be available in due course to enable you to look back and see the exact mix. I cannot tell you now, looking forward, what the mix will be, but I have the breakdown of the figures for 2013-14, which shows that there were 7,012 affordable housing completions and, within that number, 4,368 social housing completions. That gives you a sense of the numbers, and in due course that very precise information will become available for future years.

The second part of your question was on innovative financing. You mentioned help to buy, which has been hugely successful. We will continue to support the scheme into next year, although we have made some changes to the eligibility criteria. I make no apology for that, as we have a finite resource and we want the money that we allocate to the scheme—it will be approximately £100 million next year—to help as many people as possible to access the housing ladder.

On other innovative methods, a substantial chunk of our funding for housing now comes from financial transactions via the UK Government. I would not choose to receive funding in that form, because it severely restricts what we can do with it—effectively, it is loan funding that must be repaid, and there are limits to how we can invest it. It is welcome in the sense that it is resource that we would not otherwise have, but I would rather just have straight funding that gives us proper flexibility.

Much of the financial transaction funding is being used for what can be described as innovative ways of funding housing. One example is the option of open-market shared equity, which we are seeking to extend. We have housing infrastructure loan schemes that are aimed at unlocking housing developments by offering funding for some of the related infrastructure development.

The national housing trust has been very successful, and we are developing, and will continue to look at, variants of that scheme that will be appropriate in different circumstances.

We have also invested in charitable bonds, which is ground breaking in many respects, to support construction of social housing and to finance some community projects. In addition, the warm homes fund tackles fuel poverty.

Those are all innovative ways of investing in things that we all want to invest in, and they help us to use the particular form of funding that is available through the financial transactions route, which is not as easy to use as straight grant funding is.

Gil Paterson: The financial charges for NPD and public-private partnerships are not stated specifically in the budget. Can you say how much of the infrastructure, investment and cities funding line is being spent on payments for NPD and PPP projects?

Nicola Sturgeon: There may be more information that I can send to the committee about that after the meeting. There are no NPD payments in 2015-16, because none of those projects has got to the stage at which we have to make the revenue payments for them.

However, PPP contract payments are included in the 2015-16 budget line. For the IIC portfolio, those payments will amount to about £89 million in 2015-16. They relate to three transport private finance initiative projects: the M6 project, the M77 project and the M80 Stepps to Haggs project. That is the extent of PPP revenue payments. Also in relation to transport, the first payments from the current NPD investment programme will probably kick in in 2016-17 and will flow from the M8, M73 and M74 motorway improvements.

If the committee wants more information, I would be happy to provide it, but those are the headline figures.

Gil Paterson: I suppose that it is an on-going operation to try to find ways to reduce the PPP charges.

Nicola Sturgeon: They are legacy charges that we have to live with. NPD is a far better way of financing infrastructure projects than the old PPP method was.

In my opening remarks, I referred to a very important point that comes into play here. We set a 5 per cent ceiling on any scheme—whether it is an NPD scheme, a legacy PPP scheme or a scheme that involves borrowing capacity—in which we are in effect borrowing to pay for it through our revenue budgets over a longer period of time. Therefore, no more than 5 per cent of our DEL revenue budget will be taken up by on-going revenue payments. That is an important discipline for us. We want to invest as much as we can in infrastructure, but we have to be mindful of the obligations that that puts on revenue budgets, perhaps for many years into the future.

The Convener: Members have no further questions. Do you have any final comments, cabinet secretary?

Nicola Sturgeon: No. I offered to send more information on a couple of items; we will follow those up. If there is any further information that the committee wants before concluding its report, we will be happy to provide it.

The Convener: Thank you very much.

We are slightly ahead of time and will be joined by other members for the next session, so I suspend the meeting for a few minutes.

11:13

Meeting suspended.

11:25

On resuming—

Prestwick Airport

The Convener: Under agenda item 3, we will hear again from the cabinet secretary, this time on Prestwick airport. The cabinet secretary offered to give us this update when she previously gave evidence on the matter in June.

I welcome, from the Scottish Government: Nicola Sturgeon, Cabinet Secretary for Infrastructure, Investment and Cities; Sharon Fairweather, director of finance; and John Nicholls, director of aviation, maritime, freight and canals at Transport Scotland. I also welcome to the meeting Chic Brodie, James Kelly and John Scott, who are attending for this item. I will take questions from committee members first, but if you want to come in on the back of another question, you should catch my eye instead of waiting until the end to ask a question. That would be preferable.

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

Nicola Sturgeon: Yes, convener, and thank you for giving me the opportunity to come back to update the committee.

Progress continues to be made in the work to return Prestwick airport to profitability. I have always said that this would be a long-term project, but progress is under way. What I want to do today is give the committee an update on this work and an overview of what comes next.

As you have said, convener, I am accompanied today by Sharon Fairweather and John Nicholls, who, as you have indicated, are part of the senior management team at Transport Scotland. Perhaps more pertinently for today's business, they are also board members of TS Prestwick HoldCo Ltd, which was the company that was established for the purposes of the Government's acquisition of Prestwick airport.

Since I gave evidence to the committee in June, there have been a number of developments. Some are covered in my letter to the committee of 16 October, but I want to give further updates in addition to those issues.

First, I want to update the committee on the arrangements for corporate governance. As I have previously indicated, we have established a two-tier board structure, with a holding company board, which will be responsible for the long-term strategy for developing the airport and will give the Government important oversight of the airport's strategic development. Secondly, we have established an operations company board, which

will empower management to deliver the strategy. I will no doubt stress many times during the course of our discussions the point that responsibility for running the airport now lies with the airport's management team. It will be run on a commercial basis at arm's length from the Government.

Following an open recruitment process, I am able to advise the committee that I am appointing Andrew Miller as the non-executive chair of TS Prestwick HoldCo Ltd and the operating subsidiary. Andrew has, among his many other posts, a wealth of experience in business development across the aviation sector, and he is a former chief operating officer of the global aviation business at Air New Zealand. I will provide the committee with details of his CV, which will give an insight into why I think he is an excellent appointment as chair. His job now will be to work closely with the management team to take forward the proposals in the vision statement, which was published on 31 October.

I will now update the committee on our arrangements for local authority representation on the holdco board, which I know has been an issue of particular interest to John Scott. Further to the work that we are undertaking with South Ayrshire Council on the newly created stakeholder groups that will be chaired by the council leader and which will focus initially on supporting the airport spaceport submission, I can advise the committee that we have agreed that membership of the holdco board will include the council's chief executive in an observer capacity. The council has also proposed—and I have agreed—that the holdco chair will become a member of the wider stakeholder group. That will enable close integration of the airport's development and the wider economic strategy and development of South Ayrshire.

11:30

The membership of the two boards will be completed by the recruitment, through an open procedure, of a number of non-executive directors to the board of the operating company. The non-executive chair and non-executive directors will oversee the airport's operation, support the senior management team in repositioning the airport and provide appropriate and robust corporate governance of all its activities. As I have said, the airport will operate at arm's length from the Government, and the new structure will help to reinforce that.

The airport's strategic vision, which was published at the end of October, includes plans for investment and business development and the optimum operating structure that is deemed to be required to take the airport forward, and I think that it is worth briefly highlighting some of the key

actions that are detailed in the vision document and which have been taken forward in recent months. They include investment in infrastructure; adjustments to the airport's operating cost base, in particular to align it with changes to the winter schedule; and improvements to the passenger experience, which have been reflected in passenger surveys. The airport also recently hosted the re-established Scottish air show. It has delivered new offices for Ayrshire Chamber of Commerce and Industry within the terminal, and the long-term future of search and rescue has been secured at the airport.

I say this with a degree of caution because we have to take a long-term view of these things, but it is worth pointing out that freight tonnage is up by 38 per cent in this financial year compared with the previous financial year. In an environment that remains very challenging, there are signs of growth in certain aspects of the airport's business.

The strategic vision builds upon the stage 2 business plan that was developed by the senior adviser and includes as much of his work as possible without impinging on commercial confidentiality and the airport's ability to operate commercially. That is a point that I unapologetically stress today. If we expect the airport to operate commercially—which we do—we have to allow it the space to operate commercially. As a result, it requires a degree of commercial confidentiality to plan for a return to profitability. However, we recognise that the airport is right now in receipt of Government investment in the form of loan funding, and it is, in my view, appropriate that I or any of my successors report regularly to this committee on progress in turning the airport around.

As the strategic vision details, the overall aim is to operate the airport in a safe, cost-effective and efficient manner and to develop and enhance its variety of business interests in order to return it to profitability, with the long-term intention of returning it to the private sector. The senior management team at the airport has been tasked with delivering the vision statement, taking account of the winter 2014-15 and summer 2015 flight schedules. The team also has to take advantage of new opportunities. For reasons that we all understand, the spaceport is attracting a lot of attention, but a whole range of opportunities has been identified for growth at the airport and it is the responsibility of the team to advance them all.

After touching on route development and air passenger duty, I will give the committee a brief update on investment before I stop to take questions. On route development, when I last appeared before the committee, I said that we would commission work in two areas: the new European Union rules on support to airports, and

air passenger duty. We have reviewed the new aviation guidelines, and we are aware of their constraints as well as the opportunities that they present. One of our key objectives is to increase the number of direct flights from Scotland to international destinations. Although over the past year we have had significant success working with all our airports to support our route development ambitions, there is still much work to be done to help airlines ensure that new routes are sustainable in the long term and to help us fill gaps in our international connectivity. As a Government, we will continue to help all our airports in that highly competitive market.

On air passenger duty, work that we published in October showed that cutting APD would lead to an increase in passenger numbers at Scottish airports, and Prestwick along with our other airports would benefit from that. One of the biggest things that can be done right now to help route development at all our airports and at Prestwick in particular is the devolution of APD. I know that Scotland's airports—and, indeed, a number of airlines—support that, and I very much welcome the recent submission that was published by three of our airports. The aviation industry repeatedly cites APD as one of the major obstacles when it comes to securing new routes and maintaining existing routes. We must be absolutely firm that getting control of and being able to do something about APD would be very beneficial particularly but not just for Prestwick as we go forward.

The final area that I want to cover is investment. The picture here has not changed since my previous update to the committee. To date, we have advanced a total of £7.5 million in loan funding to Prestwick; £4.5 million of that was given in the financial year 2013-14, and £3 million has been given in 2014-15 so far. We expect to provide a further £7 million in 2014-15, but that will not change the totals that I outlined to the committee at my previous appearance. As members will be aware following our previous evidence session on budget scrutiny, we have included provision for £10 million of loan funding for Prestwick in next year's draft budget. I repeat that all of our investment in Prestwick is in the form of loan funding and that we require to make a return on that investment for the taxpayer. That will continue to be our objective.

My final point about investment is that it is worth putting it into context. We should remember—and I think that the convener raised this point at our previous meeting—that Prestwick airport was estimated in the last year for which we have figures to have contributed nearly £50 million a year in gross value added to the Ayrshire economy. Just to remind everybody why we are where we are on this issue, I point out that if the Government had not acquired Prestwick airport, it

would be closed right now—that is the stark reality. We acquired it because we think that it is important to the Ayrshire economy as well as to the wider Scottish economy. Having done so, we recognise the challenges that we face in turning it around, but we think that that can be done. However, everybody who agrees with us that Prestwick is important and that it was not the right thing to allow it to close now has to get behind us—and, more important, the airport—as we do the hard work that will be required to make it a success.

The Convener: Thank you for that, cabinet secretary, and for making available the strategic vision report as soon as possible. There is a lot to get through in it.

You said that the Government's aim is to return Prestwick airport to profitability and to private ownership. That will be welcomed by other airports, especially Glasgow airport. Whenever I attend a meeting at which representatives of Glasgow airport are present, they always mention Prestwick airport as a threat rather than anything else, particularly because it is in public ownership. Does the Government have a target date for when it would like to return the airport to private ownership?

Nicola Sturgeon: I am neither prepared nor able to put a date on that at the moment. The most important thing for me to do not just on this but on all occasions is to be frank with the committee. I believe that the airport can be returned to profit. If the Government did not believe that, not only would we not have acquired it but we could not have acquired it, given the terms of the European state aid rules under which we are required to operate. I believe that the airport can be returned to profit and that that will happen, but we must be patient and recognise that there is no quick fix.

As the aviation market is not only competitive but highly changing, Prestwick airport must have a range of options at its disposal and must seek not only to increase its business but to expand it across the spectrum of what it does. That is going to take time. If anybody thinks that there is a quick fix, I will be very happy for them to tell me what it is. We need to be patient to achieve all the things in the strategic vision, and I believe that, if we are, the airport can be returned to profit. As time passes and we start to see some of the work that has been done bear fruit, the ministers who will come before the committee on a regular basis over the next few years might be able to give a more definite prediction of when the airport will be returned to private ownership. At the moment, it is important that we back the airport management, so that it can do the work that it has to do.

As for your comment about Glasgow airport, I think that Prestwick can flourish in the market that

we have, and, as a Glasgow MSP, I want Glasgow airport, too, to flourish. All I will say is that I know how hard all of our airports have to work to win and sustain routes and to win business, and I do not for a second underestimate that work. Given the success that Glasgow has had, even in the years since we acquired Glasgow Prestwick airport, I suggest that, with or without Prestwick, Glasgow is a good proposition and its management team is doing an excellent job in growing the airport. It is important to put that on the record.

The Convener: You mentioned the loan funding that Prestwick has had and will get over the next few years. Are the loans reducing operating losses? Is the operation getting on to a sounder footing? When will you begin to see a return on the loans?

Nicola Sturgeon: The loan funding that we provide is doing a mixture of things, and two things in particular. It is enabling the airport to operate and pay the bills that keep it running; it is also enabling capital investment, so that much-needed maintenance at the airport can be undertaken—I think that I went into that in some detail when I last appeared before the committee. The airport has been neglected for a long time. The fabric of the airport has been neglected and, to be frank, so has the leadership vision for the airport. We are trying to bring a lot of that back to where it should be.

Some of the funding is for what we describe as capital repositioning, so it is not the capital spend that is essential to keeping the airport running but the capital spend that it is considered will help to increase revenues, for example by making the duty free area more conducive to spending and improving the customer desks. Such things will help with the objectives of growing passenger numbers and business at the airport.

I think that the last time I spoke to the committee about this I said that we think that the capital investment will peak this year and next year. In next year's budget we have set out the £10 million that I spoke about. You asked when Government support can start to reduce. That is tied up closely with how successful the management team is in growing business and reducing the losses at the airport. The team is absolutely focused on that.

The repayment of the loans will flow from our judgment of when the airport starts to move back into profit. I cannot give a definitive timescale for returning the airport to the private sector, nor can I give a definitive timescale for repayment of the loans—because these things are tied up. However, I remind the committee that, overall, we must make a return on taxpayer investment, so repayment of loans, with a return, is essential and underpins everything that we are doing.

The Convener: Thank you.

Alex Johnstone: A great disappointment over the past year—for Prestwick, anyway—was the announcement that Ryanair would begin services from Glasgow. Can you assess the impact of that on Ryanair's future plans at Prestwick? Does it put a question mark over the viability of passenger services?

Nicola Sturgeon: I am glad that you said that it was a disappointment for Prestwick. I do not think that Glasgow airport would describe Ryanair's decision as a disappointment; it is a good-news story for Glasgow.

Ryanair is hugely important to Prestwick, of course. The company has made clear that it retains an on-going commitment to Prestwick airport, which I very much welcome. I know that you are aware that the importance of Ryanair is not just to do with passenger services in and out of the airport, because the company's maintenance and repair facility is at Prestwick. The airport is important for Ryanair and Ryanair is important for Prestwick.

I have had discussions with senior management at Ryanair and I think that they are committed to the airport. In return, they have been very clear with me that they think that APD is the significant constraint on passenger growth at Prestwick and that if APD were to be removed, it would change, perhaps substantially, their ability to put new routes and services into the airport. They have been very frank about that.

11:45

Obviously, there are other issues to do with how Ryanair wants to position itself as a business. Anybody who has travelled with Ryanair recently, as I have—from Prestwick, I have to say—will know that it is going after more of the business market and consequently is locating itself more at mainstream airports, as opposed to subsidiary ones. We do not work separately from that overall operating environment, but I am satisfied that Ryanair remains committed to Prestwick. It is now for the management team to work with Ryanair and prospective customers to grow that part of the business over time.

Alex Johnstone: The cabinet secretary spoke at some length earlier, and again in her last answer, about the devolution and eventual removal of air passenger duty. That is a subject on which I might even be willing to join her on the barricades at some point in the future. Will she explain to us how the removal of APD would particularly benefit Prestwick airport, given the danger that, if it is abolished in Scotland as a whole, the spare capacity at other airports would

be taken up before new services arrived at Prestwick?

Nicola Sturgeon: Just to be clear, I am not saying that the removal of APD will particularly, or solely, advantage Prestwick. Getting rid of APD in Scotland, or substantially reducing it, would benefit all our airports. That is our starting position. It would benefit Prestwick as one of those airports.

Michael O'Leary, of Ryanair, put it quite starkly last month when he was talking about the effect in Scotland of scrapping APD. He said that it would lead to Ryanair doubling in size in Scotland, going from 3.5 million to 7 million passengers in two years, with 1.5 million more passengers at Edinburgh and 1 million more shared between Glasgow and Prestwick. If we consider the current situation at Prestwick, that kind of increase in passenger numbers—even if Glasgow and Edinburgh benefited as well—would make a substantial difference to the revenue and profitability of the airport.

The committee should not read into what I am saying that APD abolition is somehow a particular benefit for Prestwick. However, there is no doubt that APD abolition will benefit Prestwick. The other side of that is that APD is a significant constraint on what the airport's management is trying to do to increase passenger traffic.

Alex Johnstone: In your opening statement, you also spoke about route development. Over many years now, I, and others in my party, have suggested the reintroduction of the route development fund as the way forward. You have said that you wish to support route development. Does the new advice that you mentioned earlier rule out any return of the route development fund in a recognisable form?

Nicola Sturgeon: It does not enable us to return to the kind of route development fund that was in place before the 2005 rules came into place. To remind members of the background to this, the European Union's 2005 aviation guidelines effectively forced the discontinuation of the route development fund as it was. The aviation guidelines that were published earlier this year, which update the 2005 guidelines, do not materially change that situation.

However, although we cannot have a national route development fund, within those guidelines, we can and do work with our airports to support route development. That is done as part of our team Scotland approach, in which we offer marketing support to new routes. That support can be offered to Prestwick, just as it is to other airports.

Because Prestwick has fewer than 3 million passengers a year, there is the possibility of more direct help on airport charges. The airport itself

can offer deals to airlines on airport charges, within certain rules. Local authorities do not operate within quite the same constraints as the Government, and I know that South Ayrshire Council is looking at options on route development. No doubt, it will give its views on that in the fullness of time.

There are things that we do with all our airports, there are things that we can do with Prestwick and there are things that the local authority can do. However, we cannot reinstitute a national route development fund along the lines of the previous one.

Alex Johnstone: How effective do you think that the co-ordinated marketing strategy will be in attracting additional routes and services to Prestwick?

Nicola Sturgeon: It has the potential to be effective. Without having a go at the previous owners of the airport, I think that that is one of the things that just did not happen in the way that it should have. The airport needs a co-ordinated marketing strategy that looks at existing routes from the airport and how to get more passengers on to them. It must also be about marketing Prestwick and the Ayrshire economy—part of the approach will be to work with VisitScotland to market the area as a destination of choice. The third component is actively marketing the airport with airlines so that, over time and with all the caveats on APD that I have inserted, we encourage new routes and new airlines to operate out of the airport. That is the strategy that the airport needs to take forward and which it has not been implementing for a long time—I do not know how long it is since it operated a proper approach like that.

That will not deliver new routes and new airlines at the airport overnight. Nobody should be under any illusion that that is going to happen. However, over time, the approach can start to drive growth in passenger numbers, which are one of the elements of the revenue base of the airport that we want to increase, although not the only one.

Chic Brodie (South Scotland) (SNP): On the comment that was made regarding Glasgow, there are two elephants in the room—a big elephant and a baby elephant. The big elephant is what will happen in London and the south-east with the investment not just in the airport but in the infrastructure around it. I was down there two weeks ago, and I saw that there is a problem. The baby elephant is about recognising the unique capabilities of Prestwick and getting support from the other airports in Scotland. That involves the maintenance, repair and overhaul capabilities and the ability to handle big jets. How can we get overall acceptance of a Scottish aviation strategy

that involves all the airports working together and recognises their capabilities?

Nicola Sturgeon: We must be realistic and recognise that our airports are in competition. That is why the Government has to take an airport-neutral stance when we offer route development, for example, and why our marketing approach will be offered to whichever airport wins a particular route and will not be tied to a particular airport. However, I am sure that there are other issues on which we can take a more strategic approach. Getting Prestwick to be focused on where it sits in the scheme of things is the first thing to do to enable that to happen. One thing that has been lacking at Prestwick is its own strategic approach to developing its business, never mind where it sits in the overall strategy.

As I said when I discussed the issue with the committee previously, less than half of the airport's revenue comes directly from aviation. I immediately qualify that by saying that the airport would not get some of the other half of the revenue unless it had aviation. For example, unless there are passengers, there will be nobody buying perfume in the duty free shop. All those matters are integrally connected. However, there are other aspects of the airport's business. Some of the facilities at the airport such as the long runway, as well as the weather conditions, add up to making it an airport with a diverse range of possibilities, and we need the management team to focus on developing all those possibilities. That is why the strategic vision document has a range of options. The last thing that Prestwick should do right now is to narrow its focus, because one of its strengths is the diversity of what it can develop.

They will love me for this, but I am about to offer up the management team to the committee. Of course, it is entirely up to the committee to decide its own business but, as well as having regular visits by ministers, I think that it might be worth while getting the team in, and I know that they would welcome the committee if it wanted to visit the airport. Not long after the airport's acquisition, I had a proper in-depth tour around it, and I think that such visits give an insight into some of the challenges that it faces as well as some of the opportunities. I am sure that, if the committee was minded to undertake such a visit, the management team would welcome it.

The Convener: We will probably take you up on that offer. Mark Griffin will now ask some questions about freight.

Mark Griffin: Before I do so, I want to ask a supplementary about the marketing strategy and attracting additional services. I read in the newspapers that, on Friday, Donald Trump will be making an announcement with the chief executive of Prestwick airport. Are you able to comment on

any additional services that might come to Prestwick as a result of that announcement?

Nicola Sturgeon: The very idea that I am able to sit here and speak for Donald Trump is interesting. No, I am not able to comment on such matters—and, indeed, that underlines my point that the airport is in charge. I am sure that any announcements will be greeted with interest, and the committee can ask whatever follow-up questions that it wishes on the matter, but I am not able to go into detail about that today.

Mark Griffin: You mentioned that freight at Prestwick was up 38 per cent, and the vision document certainly puts a lot of focus on that market, referring in particular to an

“ambitious ... plan to strengthen the airport’s position as ... Scotland’s premier cargo airport”.

Can you give us any figures for Prestwick’s market share to show how it is establishing itself as “Scotland’s premier cargo airport”? The figures seemed to be in steady decline and, indeed, the airport has in recent years been overtaken by Edinburgh. What progress is the airport making in re-establishing that market share?

Nicola Sturgeon: The vision document contains figures for that, but I am happy to provide the committee with figures on not just Prestwick’s freight operation but, as you have rightly asked about, where it fits within the overall market.

You are absolutely right. In the few years before we acquired the airport, no aspect of its business was—if I can put it as bluntly as this—going in the right direction, and that includes freight. That said, it is important to point out that, over a fairly short period of time, there has been quite a substantial increase in freight. I am not complacent about that—that has to be maintained—but I think that it demonstrates that, with the right approach, the right leadership and the right grip on things, it is possible to start to grow aspects of the business. The ambition that has been set out in the vision document for Prestwick’s place as the premier freight operator is, I think, the right one. It will be down to the management team to achieve that ambition, but I think that they have been right to set it.

Mark Griffin: Are the management team at Prestwick doing anything in particular that you can detail for us to increase the number of freight services that are using the airport?

Nicola Sturgeon: They are working and will continue to work with the two operators that currently operate from Prestwick, which are Cargolux and Air France, and will not only grow their business but look at other possible operators.

I do not want to close down any lines of questioning, but I must point out that this is a

commercial airport. On any given day, the management team will be pursuing, investigating and exploring a whole host of commercial opportunities. However, as with any commercial business, they will not always want to talk about those opportunities, because their competitors might hear and trump them—if you will pardon the pun. *[Laughter.]*

I want to stress this point: you should—and, if I know the committee, you will—hold the Government to account for the airport’s overall progress over a period of time, the trends in all of this and our predictions for getting that return on taxpayers’ investment. However, with regard to the airport’s day-to-day operation, which is what will matter in turning things around, we have to trust the management team and give them the space and the ability to do this. I will not sit here and go into great detail on all the different commercial opportunities that they are pursuing, because if I did so, that would undermine their chances of success in them.

12:00

Adam Ingram: I am going to press you a little bit in that area. Obviously, because of commercial confidentiality, the vision document does not really go into detail on revenue-generating initiatives, but can you give us a broad overview of how Prestwick airport intends to increase revenues on the aviation side and the commercial side?

Nicola Sturgeon: Prestwick airport intends to do that in a whole range of ways. It intends to do it by increasing its passenger numbers over time and by increasing the freight load. We have talked about how that is probably the area of the business in which it is having most early success at this stage.

Some of the capital spend that I have talked about is designed to raise revenues in some of what I will describe as the subsidiary parts of the business, although that is probably not the correct terminology. Whether there are increased numbers of passengers or just the numbers of passengers that there currently are, the question is whether the airport is maximising the revenue from them in the period in which they are in the airport. I flew from the airport a few weeks ago, and I think that the answer to that question is that it could do a lot more through the duty-free retail outlet and the food and drink offer. It is looking at that. Some of the capital investment is about to make all of that more attractive and conducive to raising revenue.

There is work to look at car parking and how the revenue from it is maximised—within reason, obviously.

More widely, it is a matter of looking at the property portfolio and coming up with a strategic approach. We have talked about that before. The airport holds a lot of land, some of which will undoubtedly be needed for longer-term ambitions around the airport, but some of it is probably surplus to requirements. Can the airport maximise the value of that land?

Right across the business, there is a focus on raising the revenue—incrementally in some cases—as well as on keeping the costs as low as possible and ensuring that they do not get out of sync with the passenger numbers and so on.

Those are the immediate short-term things that the airport has to do to position itself properly.

Adam Ingram: Okay. Thanks for that answer.

I want to ask a question about a more specific issue. A key success factor for the airport's future is identified in the vision document. It says:

"An integrated partnership approach to business development and marketing"

should be adopted with the airport

"working cooperatively with the local tourism and aviation related industries."

In that context, I do not understand the rationale behind the termination of the leases of the two specialist ground-handling companies, Greer Aviation—which I have visited and which I know colleagues have visited—and Landmark Aviation, which have operated successfully at the airport for several years. Can you give us an understanding of the rationale behind that?

Nicola Sturgeon: I will certainly do that, but will preface that with what I have just said. The airport management has taken an operational decision. If we second-guess every operational decision that the airport takes, it will not be able to operate successfully as a commercial enterprise. We have to be very mindful of that. We cannot expect a management team to return an airport to profitability and then tell it what it is and is not allowed to do in the interests of moving the airport forward commercially.

I pay tribute to both companies for what they have done, but the judgment of the airport management is that it can provide those services to a higher quality by bringing them in house, that doing so will be more cost effective, which relates to my point about ensuring that the airport's operating cost base is kept as low as possible, and that that will position the airport better to grow that part of its business.

The fixed-base operations obviously relate to ground handling. Prestwick already provides ground-handling services to scheduled passenger and cargo flights. The two companies provide

services to military, corporate jet and ad hoc aviation services. That is a part of the business that the management team wants to and thinks that it can grow, and it thinks that it will be more able to do that if it has those services in house because it will be able to deliver them to a higher quality and integrate them better with the other services, which will enable the airport to attract more business.

The airport will be held to account in the fullness of time on whether it is right about that, but that is the operational judgment that it is making. Without going into detail on the figures, I note that it estimates that that will result in significant cost savings as well as leading to potentially significant revenue generation. If that is the judgment of the people who are charged with running the airport, they have to be trusted to make that judgment and implement it.

The last point that I make in relation to the two companies is that we are talking about people and their jobs, and that is always hugely important. The airport will require to employ people to carry out the functions in house, so it is likely that many if not all of the numbers that are employed by the companies will continue to be employed by the airport. All Transfer of Undertakings (Protection of Employment) Regulations obligations will be adhered to. The airport has its own legal advice on that, but discussions are on-going about employment and transfer of employees, and it is important to allow them to take place.

Of course I understand how both companies will feel about the decision, and I make no criticism of them at all. I know how anxious their employees will feel, and that is why the last bit of my answer—on the discussions about transfer of employment—is so important. However, whether it is a decision about fixed-base operations or a decision about any other part of the business, if we are asking a management team to operate an airport commercially at arm's length from Government, it has to be given the ability to do that and to make decisions that it deems will further our objective of returning the airport to profitability.

Adam Ingram: Thank you for responding with the airport management's rationale. I certainly look forward to having the airport management in front of us at a future meeting. It is only fair to point out the view of the affected companies. There is no doubt that the airport can handle the technical aspects of the business that they operate, such as refuelling and looking after the crews of private and military aircraft that come to the airport. It is the handling of the customer relationship that the businesses have specialist skills in, and those skills are likely to be lost.

The US-owned company, for example, intends to transfer its operation to another, competitor airport, and the senior management at Greer Aviation will not involve itself at Prestwick. There is potentially a significant loss of business from the activity being taken in house. In my judgment, which is obviously not the judgment of the airport management, the move is a bad idea. It also sends the wrong signal to potential private sector investors that an airport management can unilaterally take over business that companies have been operating successfully.

Can the decision be revisited? You mentioned that a new chair has been appointed. Is the decision not something that he can review?

Nicola Sturgeon: I will not revisit the decision, because it is not my decision to make. I am not going to get into the space of micromanaging the airport's operation. If we go down that road, we will not succeed in turning round the airport. I am pretty hard and robust in my view on that.

You have cited a perspective on the part of the businesses that are offering the services. I am not saying that Greer Aviation and Landmark Aviation are wrong—indeed, I am not able to judge whether they are right or wrong—but, given that they are the ones operating the services, it would be surprising if their view were not that they are best placed to continue to do so.

The airport management has taken a judgment that it can deliver the services to a higher standard and in a way that positions the airport to win more business. It is empowered to make that judgment. You are perfectly free to quiz and query the airport management about that, as I am sure you have. It can answer for itself on that matter.

To round off my answer, if we had let the airport close, there would be no jobs at the airport or in any of the businesses that operate there. That is where we were. Having decided that we did not want to let the airport close, we acquired it. There is a long road ahead in turning round the airport. It can be done, but that long road will not be easy all the time. On occasion, it will involve taking tough decisions that some people may disagree with. However, if we are to turn round the airport, we must have a management team that is empowered and equipped to have a hard focus on the commercial realities when making decisions. That is the space into which the decision on the businesses falls.

I understand the businesses' perspective, I absolutely understand employees' anxiety and I stress again the importance of on-going discussions to give them the certainty that they deserve, given that we are talking about their jobs. However, I will not sit around a committee table or anywhere else and presume that I am better

placed than the airport management to make decisions about fixed-base operations and whether they are better delivered in house or by external companies.

The Convener: Mark Griffin, James Kelly, Chic Brodie and John Scott want to come in on the back of this discussion. I ask that the questions be as brief as possible, and the answers, too, cabinet secretary.

Mark Griffin: I agree with pretty much all that Adam Ingram said. I question the rationale around losing the rental income from two companies from the outset and the potential business, as the companies take their customer lists elsewhere.

The approach conflicts with the vision document, which sets out the constraints under which Prestwick operates. One constraint is the high operating cost base. Unlike other airports, Prestwick manages a lot of its services in house, so it has a higher operating cost base than other airports. The decision taken will only compound that by increasing the operating cost base.

I want to ask about the affected companies' contracts. The competitive tenders were won against and in direct competition with the company that Prestwick owns. However, the company that lost out in a competitive tendering exercise has now taken over a contract as a result of terminating the other companies' property rights. Are you confident that Prestwick and, in effect, the taxpayer, will not be liable for any legal action as a result of anti-competition law?

Nicola Sturgeon: First, I assume that the member is aware of the changed legal environment governing Prestwick in terms of European law.

Mark Griffin: Perhaps you could expand on that.

Nicola Sturgeon: When the third parties were brought in, business at Prestwick was covered by the EU ground handling directive, because of the airport's volumes of passenger and cargo freight at that time. That directive requires an open market at airports for ground-handling services. It was not possible for Prestwick to operate those services in house because the directive applied.

However, that directive applies to airports that have more than 2 million passengers or 50,000 tonnes of freight per annum, and Prestwick is now unfortunately below those thresholds, so the directive does not apply, and that opens a different approach to Prestwick. That is the legal environment and, presumably, members are aware of the contractual point. The members of Prestwick's management team must satisfy themselves that they are operating on a sound legal basis with contracts, and they have given

notice to terminate those contracts under the terms of the contractual arrangements that apply to them.

12:15

I hear what you are saying. You think that the judgment is wrong. I am not going to sit here as a politician and presume that I have enough knowledge of aviation to be able to look airport management in the eye and say that it is getting it wrong, because it is telling me that its cost base will be improved by taking such services in house and integrating them with scheduled passenger and cargo services, and that that will mean delivery of a better service. I do not have the expertise to say that the management is wrong about that. The airport will be judged on whether what the management says is right and whether it enables the airport to reduce its costs and grow the business. If the people who are running the airport have made that judgment, they have to be trusted to make it. It would be a strange operating environment for any commercial entity if it had a politician telling it that it has to make a different decision.

James Kelly (Rutherglen) (Lab): I have a specific question about revenue overview, but I would just like to cover the issue of profitability. When the Government took over the airport, losses were running at £800,000 a month. What is the current position?

Nicola Sturgeon: The accounts for 2013-14 will be published shortly. The board will sign them off in the next wee while. The annual loss for 2013-14 will be in the region of £5 million. That is not an absolute figure; it is a broad figure. The accurate and specific figure will be in the accounts and you will be able to study them when they are published to see what the monthly figure is. The airport is running at a loss. The revenue support that we are providing through loan funding is commensurate with that scale of loss. The focus is now on trying to reduce those losses and move the airport into profitability.

James Kelly: The figures that you have provided indicate that the airport continues to run at a loss of at least £800,000 a month. That means that there must be a strong focus on increasing revenue.

Page 27 of the vision document deals with a revenue overview. Why are no financial data or analysis included in that revenue overview?

Nicola Sturgeon: Within the bounds of the commercial confidentiality under which the airport has to operate, I am happy to provide any additional information to the committee that it wants to request. The committee might request

information that I cannot provide for the reasons that I have set out.

I am not in the business here of trying to cover up the scale of the challenge facing us. I come back to the central point that we took the decision to acquire the airport because we thought that it was wrong to let it close. If people think that that was the wrong decision, that is a legitimate point of view; I do not agree with it but it is legitimate. If people think that it is wrong for us to have acquired the airport and it is wrong to support it while we try to take it back to profitability, they should have the courage to say that up front. If that is not their position, they have to get behind the airport as we try to do the job. It will be a long hard slog, it will have its ups and downs, but we will get there. However, we cannot constrain the airport by second-guessing the operational decisions that it is taking or forcing it to put into the public domain information that its competitor airports would not.

I will provide whatever information the committee wants. If you tell me the range of information that you want but which you think is not available, I will look at that and, if it is possible to provide it, we will provide it.

James Kelly: Do you not accept that in order to get right behind the case for the airport we need more information? You are making a substantial investment of more than £20 million of public funds. You put great stay in the vision document, but it has no financial data or financial analysis.

Do you not accept that, if public funds are being invested in the airport, politicians and taxpayers have a right to more information than just simple headlines about what the main revenue streams are? We require to see the numbers.

Nicola Sturgeon: At the outset, no, I believe that what the public want to know is that we have in place at the airport a management team that is focused on doing the things that are required.

Going back to the first question that the convener asked me, as we move through the period ahead and these actions are implemented by the airport and start to bear fruit or not, the information that we can share about the airport's projections of when it can come back to profitability will become more developed and potentially more detailed.

My judgment of public opinion on Prestwick is that the public want the airport to remain open and want to see a return on taxpayer investment, but they want the airport management now to be able to get on with the job that will return it to profitability.

I do not know anymore whether you agree that we are doing the right thing in trying to save

Prestwick or whether you think that that is the wrong decision. If you think that it is the wrong decision, that is fine—we can have an honest disagreement about that—but at least you should make it clear that your position is that we should not have rescued the airport.

James Kelly: I made clear at the start of the process that I supported the Government in taking over the airport.

Nicola Sturgeon: It is easy to say that.

James Kelly: What I am saying now is that you have indicated that the losses are continuing at least at the level that they were at when you took over the airport, that substantial money is being invested, and that we want to get behind the initiative to save the airport and the jobs, but that it is difficult to understand how it is being taken forward when you have produced a document that lacks detail and has no financial data or analysis to back up your case.

The Convener: Please be very brief, cabinet secretary, because this is going over the same information again.

Nicola Sturgeon: The vision document is the strategy for taking forward the airport. In either my first answer to you or my answer to Mark Griffin, I said that in a fairly short period the airport's annual accounts, which will give very detailed information about the airport's financial position, will be published. It is simply not the case that the information will not be available for people to scrutinise.

In the interests of trying to build some consensus between us, I would say that you are absolutely right: public investment is involved, so people—parliamentarians in particular—want to know in detail what the airport management is going to do. I repeat: get down there and speak to them. I will not name names, but a number of people around this table regularly make very constructive suggestions to me, which are then passed to airport management as things that the managers could look at doing. The people involved will know that it is not possible for all those suggestions to be taken forward—some do not come to fruition—but a lot of people around this table are actively engaged with that level of detail.

If you want to raise things directly with the airport management, do it. If you want to bring things to me, do it. Get in and about the annual accounts when they are published. If you have questions off the back of that, fine—that is all part of your responsibility as a parliamentarian.

It is easy to say that you are behind this until it comes to the difficult decisions. If we are all behind it, we must all really be behind it and we

need to accept that it will not be easy. If all of us can on this issue, even if on no other issue, try to put short-term party-political bickering to one side and accept that we are trying to save one of our country's important strategic assets, and if we all get behind the initiative and support the airport management as it carries it out, that would be better than the attempts—that we can all be guilty of—to score political points.

Chic Brodie: The cabinet secretary talked about the involvement of politicians, so I am going to take off my political hat and put on my business one. If I were Andrew Miller, the new chairman, I would be very upset if I were told, "Here's the business plan—you'd better go out and achieve it." Clearly he has to lead and I hope that, once the strategic document has been absorbed, we will see the business plan that goes along with it, which will include all the financials, the funding and so on.

I received a letter, which has been distributed to everyone, about the two companies that were asked to terminate their business with the airport. Immediately after speaking to Greer Aviation, I went to the airport management to ask about and understand the rationale behind its decision. It did not handle the dissemination of information well—indeed, when I went through the information, it was clear that there was no indication that TUPE considerations would be taken on board or that there would be jobs for some of the people affected—but I think that at the back of everything is the customer-centric approach, which I believe we previously lost and which Prestwick certainly lost over the past few years.

As soon as I realised that, a light went on and I understood that the airport management made the right decision. There are consequences of such decisions—and, indeed, there will be more to come—but it is rather unfortunate that instead of running to the airport management to discuss the matter and look at the logic people ran to the newspapers. However, as I have said, I believe that, this time, the airport management made the right decision.

John Scott (Ayr) (Con): I preface my remarks by welcoming the Government's continuing commitment to Prestwick airport, and I very much take the Deputy First Minister's point that the closure of the airport would have meant a loss of around £50 million to Ayrshire and the wider Scottish economy.

That said, I identify myself absolutely with Adam Ingram's remarks about Greer Aviation. I do not wish to be difficult about such matters—it is not really in my nature—but I think that there is a point of principle about Greer Aviation and Landmark. It would not be reasonable of me to disclose the figures, but I know that both companies have

reasonably successfully been providing the airport with a good and proper income stream month in, month out for the past 15 years.

Also, there is the philosophical point: our intention might be to encourage new business development at the airport, but if, as in this set of circumstances, the airport sees its way forward as removing the competition and allowing it a clear field to compete for this business, it will actually discourage other small businesses from starting up at Prestwick, given that they, too, might be evicted from the airport when it copies their business model.

I understand very well your hands-off approach, Deputy First Minister, but the new board is going to have to grapple with that philosophical point very quickly, and I would be grateful if you could comment on it.

Nicola Sturgeon: I am not going to repeat everything that I have said about this issue. I take your point, and you must trust me when I say that I absolutely appreciate where you and Adam Ingram are coming from. You are local MSPs with local businesses that have been affected by this decision. I am sure that, if I were in your shoes, I would be making representations just as strongly as you have done. As a result, you should not take what I am about to say as any criticism of the fact that you have made these points as strongly as you have; that is your job, and you both do it well.

The fact, however, is that this is an operational decision. You are right to say that the two businesses provide an income stream to the airport, but the airport's judgment, which it must be entitled to make, is that it can increase that income stream by doing things differently.

I echo and agree with your comments that the airport must be careful not to give the impression that it is in any way hostile to business development at the airport. Therefore, it is worth stressing that the airport might have taken these decisions for reasons that it considers to be sound. Given what you and Chic Brodie have said, however, if the perception locally is that the decision was not handled well or that it sends the wrong message to business, I am sure that the airport board and, in particular, the new chair will want to reflect on that.

12:30

The Convener: If they are not listening to the meeting live, they will certainly look at the *Official Report* of today's deliberations and questioning.

I think that Jim Eadie has a short question on that point.

Jim Eadie: It is not on that point, convener. I have two questions, just for completeness. They relate to the maintenance backlog and radar.

The Convener: Before we move on to that, Mark Griffin has a point about the staff who are involved.

Mark Griffin: The strategic vision document talks about reducing the operating cost base, and staff costs make up 50 per cent of that. Can you give staff an assurance that their employment and terms and conditions will be maintained? The vision document also says that the cost base has been adjusted

"in line with the revised winter passenger programme."

Have there been any changes to staffing levels as a result?

Nicola Sturgeon: As with any business, there will be changes to the staffing profile as the business develops. There have been no redundancies at the airport, if that is what you are asking. We are within the bounds of what I said previously about a management that is operating in a commercial environment, but we would not be discussing the issue now if the whole objective of the Government had not been to save jobs at Prestwick airport.

We are doing what we are doing to protect employment. The whole objective, or a big part of it, is to protect the jobs of the people who work at the airport. It would make no sense if the way in which we decide to take it forward undermines that. The management will have to have freedom to make decisions on staffing and deployment of staff as they see fit, but let us not forget that the whole object of the exercise is to protect the jobs that depend on the airport.

Jim Eadie: As I said, I have two specific points, just for completeness. First, how confident are you that the maintenance backlog will be removed within a reasonable timescale? Secondly, the capital plan does not include the cost of replacing the existing primary radar, which is critical. Do you have any information from the management team on how the replacement of that will be financed and what the likely timescale for the work will be?

Nicola Sturgeon: On the backlog maintenance, the key aim is for the airport to operate in a safe, effective and efficient manner. The prioritisation of backlog maintenance is being done with those principles in mind.

Prestwick is operating in an evolving market and is trying to work itself back to profitability. Therefore, beyond that safety requirement, decisions on capital works will be taken on the basis of what is projected to improve the airport's overall standing and revenue generation. There will be a long-term requirement for capital

investment in the airport. The focus of the investment now is on the aspects that have fallen into most disrepair and which require work to be done for safety reasons, and on starting to reposition the airport. It would be wrong to suggest that, in the next couple of years, we will get to a stage at which there is no more capital requirement at the airport. I am pretty sure that no airport operates on that basis.

The replacement of the primary radar is a particular issue that the airport faces and it will be considered as part of the overall programme of maintenance and repair. The investment that is required for that will be factored into the overall investment, and it will be given the priority that is deemed necessary. Adam Ingram is familiar with the work that is being done on a commercial opportunity to replace the radar. I will not go into the technicalities of that, but the radar might be replaced in a way that brings additional revenue into the business, as has been done with wind farm mitigation work. Overall, that will be part of the general maintenance and repair programme of capital investment.

Jim Eadie: My colleague Gil Paterson wished to ask a question, but he had to leave for another meeting. His question was about capturing the impact of the Government's intervention to secure the jobs at Prestwick airport.

What positive impact has there been on the Ayrshire economy and the wider Scottish economy, particularly in terms of the number of supply chain jobs that are directly and indirectly dependent on Prestwick airport?

Nicola Sturgeon: We have not yet done a specific exercise to assess that, but maybe we should consider doing so. I cited earlier the publicly available figures in terms of GVA impact and jobs impact. The figures suggest that, albeit that we are investing a significant sum of public money in the form of loan funding, when we put that in the context of the value of the airport to the local economy the investment is worth doing. However, on the more general point about assessing and evaluating that impact on an on-going basis, I am happy to take it away and look at how we could do that.

The Convener: John Scott has a question, but is it on development and capital expenditure?

John Scott: It is a development question about an element in the document that has not been touched on thus far. I hope that I am not treading on other members' toes by asking a question about the development of a spaceport.

The Convener: We will come on to that when we deal with the other opportunities—and, if no one has a question specifically on capital expenditure on the airport, we will do that now and

consider the other opportunities such as the UK spaceport, the rail station, the land and property portfolio and the air show.

Adam, do you want to kick off on this?

Adam Ingram: Yes. John Scott referred to the very exciting prospect of Prestwick being the base for the UK's spaceport, which I understand should be open by 2018. I also understand that the bidding competition will be determined by early 2015 and that eight sites are being considered, of which six are in Scotland. Should Prestwick airport not be the Scottish Government's preferred bid for the location of the first UK spaceport?

Chic Brodie: Hear, hear.

Nicola Sturgeon: There was a murmur of approval from the Ayrshire MSPs around the table. *[Laughter.]*

As Adam Ingram said, eight sites have been longlisted at the moment and six of them are in Scotland. The Government's principal objective is to see the spaceport come to Scotland. At this stage of the bidding I think that we must retain more of a neutral position between the Scottish locations until we see what bids develop. Not all the locations might bid but, if at a future date one is clearly ahead, we will obviously have to make a decision at that time. Suffice it to say, Prestwick airport is in a very good position and will be able to put in a very strong bid. However, at this stage I do not think that it would be appropriate for the Government to have a preferred option.

Adam Ingram: Okay.

The Convener: We will deal with the opportunities one by one. Does anybody else have a question on the spaceport?

John Scott: Unsurprisingly, I endorse everything that Adam Ingram said about the spaceport. The spaceport idea is the one truly visionary element of the document and I therefore welcome it. The document is a little anodyne, but I do not know whether that is simply because of commercial confidentiality. I have huge respect for you, Deputy First Minister, so I am prepared to believe that that is the reason.

As I said, the spaceport is the one truly visionary element in the document. I believe that it is self-evident, certainly from evidence that I have seen, that Prestwick should be the location of choice in Scotland for the spaceport. As politicians, we should all get behind it but the Scottish Government in particular should do so, because that would carry much more weight. If we are unsuccessful in attracting the support of the Scottish Government or, indeed, the UK Government for Prestwick airport being the location of choice for the spaceport venture, what

would the plan be? What would the contingency be for Prestwick in that case?

Nicola Sturgeon: I feel as if I have spent most of this year answering questions about plan B. I thought that I had got beyond that. [*Laughter.*]

On the last part of Mr Scott's question, the vision document sets out the airport's range of opportunities. Those who wrote the vision document say that the spaceport will be "transformational", and it would be. However, if—for whatever reason—the spaceport does not happen, that will not change the reality that there are other things that the airport has to do, so it is not a case of having a plan B. There is not a plan A and a plan B; there is a plan with lots of potential components, all of which have to be pursued and advanced for as long as they can be.

Mr Scott wondered whether the document was anodyne because of commercial confidentiality. I would put commercial confidentiality to one side. Common sense will tell you that any potential location that set out the detail of its bid in public at this stage, before bids have been submitted, would probably be undermining its own case. I say to the committee collectively—in particular to the Ayrshire MSPs—to get in there and talk to the airport directly about its bid, as I am sure you will, because I know that the airport intends to submit a very strong bid.

Again, with all that I have already said about Government neutrality at this stage, I think that the airport has every reason to feel very positive about going forward on this front.

Chic Brodie: I respect the Scottish Government's neutrality—it has to be neutral, given the interests of Stornoway and the other Scottish airports.

I asked the chief executive of VisitScotland about the spaceport as, apart from a side comment about the need for visas, it clearly has other implications. I asked what the organisation's involvement had been in the plan, which you have discussed several times with those who are involved in it.

Newquay in Cornwall has set up a team from the major agencies. Newquay has some major disadvantages, but I understand that the team has been across to NASA, Houston and so on. Would it be possible to secure a task force of the strategic forum of the enterprise agencies, VisitScotland and Transport Scotland to support the bid, wherever it comes from? Clearly, we hope that it will come from Prestwick. Would that not be possible?

Nicola Sturgeon: We want to make sure that we are doing everything possible to secure Scotland as the winner of the bid, wherever in

Scotland the spaceport may end up being. As regards Prestwick, I point to the work that the local council is doing through its stakeholder groups. The first priority that it has set is to support the airport as much as possible in its spaceport bid. There is an opportunity to bring in some of that other expertise through the work that the council is doing.

We may well get to a stage where the Government is not neutral—where not all the locations bid, or where there is clearly an outstanding bid. However, we are at an early stage of the process and it is important that we recognise that.

Chic Brodie: I respect that, but I think that there is something missing in terms of an all-out attack.

Nicola Sturgeon: If you listen to me carefully, which I think you always do, you will hear that I am agreeing with you, which I obviously always do.

The Convener: We move to the airport's assets—its land and property portfolio.

Adam Ingram: Do you have any more detail on the plans to exploit the airport's land and property portfolio? I dare say that the fact that the press conference that Mark Griffin mentioned will be held in the 747 hangar on Friday, with Mr Trump and the airport management, might be indicative of developments in this area—or am I wrong?

Nicola Sturgeon: Time will tell, Adam.

On the part of the question that I will answer, I do not have any more detail. The airport has to look strategically across its land holdings. Some of its land will be important if certain other developments come to fruition, the spaceport being one of those developments. It is probably difficult to see how other bits of the land holdings around the airport fit into any reasonable overview of the airport's strategic development. However, the airport has to come to those decisions in its own way. I know that, among what it is investigating just now, it is looking very carefully at its land holdings.

The key thing is to put into place something that has not existed, which is a strategic plan for land management. With that plan, if the airport is holding on to land, it knows why that is, and if it wants to get rid of land, it knows why that is and can try to maximise value from doing so.

12:45

Adam Ingram: Are there any other revenue-raising opportunities likely to produce significant returns? You mentioned the air show, which successfully returned to Prestwick, and the railway station is obviously an investment opportunity.

Nicola Sturgeon: The railway station is an important part of the picture, as it is one of the big selling points for the airport. It needs substantial capital investment. It is not included in the investment that I have talked about already, because the way that rail investments are funded is different—we covered that the last time I spoke to the committee. No decisions have been taken about the railway station yet; it is part of the on-going discussions about investment priorities, how investment might be delivered and what timescale it would take place over.

We have to have an entrepreneurial outlook when it comes to the airport. The air show was a success this year. I remember going to the air show at Prestwick airport when I was wee, so from that point of view it was nice to see it come back. The Gumball rally—and I am not going to tell you what that is—was another major event that the airport played a part in. Those events are important, although in and of themselves they are not going to turn the airport around.

That brings us back to the point that the airport has to do all it can—even the small things, if they are part of the bigger picture, will make a difference. All of those things are important. Bringing everything together in a strategic future for the airport is most important of all.

John Scott: I remind the cabinet secretary of the strategic importance of the airport in terms of defence, other airport users and international strategic security elements. I know that I have laboured the point constantly, but I do not think that the strategic importance of Prestwick to UK and European defence can be overemphasised, particularly given the level of activity in the north-east North Sea and the Baltic Sea.

With the convener's permission, I also want to ask a question that I wanted to ask earlier about loan funding. The cabinet secretary has said that loan funding was done on a commercial basis. The one question that was not asked was: is there a ceiling? Do you have a figure in your head at which the loan funding will stop, given the underlying asset base of the airport? Should we know?

Nicola Sturgeon: There is not a figure. If I were to sit here and say that we will get to X million pounds and then stop loan funding, that would not give the airport a very certain position.

Equally, there is not a free-for-all. As I have spoken about before, the principle that we operate under is the market economy investor principle, which is required by the state aid rules. That means that we have to judge whether any taxpayer investment, at whatever level it ends up being, can generate a long-term return.

The discipline and restraint on Government comes from the fact that, if we ever get into a position where we think that we cannot generate a return, we will have to look at the investment again. It is not a case of there being only so much funding; it is a question of whether we can generate a return on the investment that we are making, at whatever level it rests. That is what we have to continue to assess.

John Scott: I suppose I am seeking your reassurance that we are nowhere near that at the moment.

Nicola Sturgeon: We could not be doing what we are doing if we did not think that we could generate a return, because we would not then meet the requirements that the state aid regulations set out.

The Convener: We can move on to corporate governance. Mary Fee has a small question.

Mary Fee: I will be brief.

Cabinet secretary, in your opening remarks, you answered many of the questions that I was going to ask you about corporate governance. Your explanation of the set-up of the boards and their operation—including the fact that the boards would operate at arm's length from the Government and that the holding company chair would be part of the stakeholder group—was all very helpful.

Given that there is public funding for the airport, I am keen to hear what role the Scottish ministers will play in the development and management of the airport. Secondly, will there be a review of the boards' operation? If so, who will do that and how will it be done?

Nicola Sturgeon: Notwithstanding everything that I have said about the management team's operational independence, the need to ensure that ministers, on behalf of the Parliament and taxpayers, have an oversight of the airport's strategic direction, so that we can ensure that we are satisfying the requirements that we must satisfy, is the reason for putting in place the two-tier board.

A company normally has one board, but it would not be appropriate to have ministers or Transport Scotland officials in an operational board of the airport, trying to second-guess operational decisions. That is why we opted to have a strategic board, in which ministers' interests will be represented, through Transport Scotland. That will give us a proper strategic overview of where the airport is going, without our interfering with day-to-day operational decisions.

The chair, whose identity I announced today, will chair both boards, which gives the structure overall coherence.

Mary Fee: Are there plans to review how things operate?

12:53

Meeting continued in private until 12:57.

Nicola Sturgeon: Sorry, you asked me that second question. We will keep things under on-going review. At a much earlier stage I indicated that our preference was to look at having an outside operating company come in to run the airport. In the course of deliberations and discussions we decided that that was probably not the right thing to do, because in effect we would have had a fixed-price contract and we would not necessarily have been able to incentivise the management team to do what we needed it to do. We will obviously want to keep the situation under review.

Over time, as we look at the airport's performance, the performance and structure of the management team and the governance arrangements will have to come into the equation. We will have to consider whether we are getting it right or need to do different things. Ultimately, ministers are responsible to the Parliament for the use of taxpayers' funds, so we will always have to answer the Parliament's questions about whether we are taking the right decisions on the strategic framework. As time passes, the airport's performance will tell us whether we are getting things right or need to do things differently.

Mary Fee: Yes, and Audit Scotland will publish a report in February.

Nicola Sturgeon: Of course. Audit Scotland is currently undertaking a report into the acquisition of the airport. As with any issue that involves public funds, Audit Scotland will have an on-going role in reporting to the Parliament and the public.

Mary Fee: Thank you.

The Convener: If no one else has questions, this is a good point on which to end. I thank the cabinet secretary and her officials for coming. I am conscious that this is your last appearance, cabinet secretary—

Nicola Sturgeon: In this capacity.

The Convener: Yes, in your capacity as Cabinet Secretary for Infrastructure, Investment and Cities. Thank you for always being so honest, open, transparent and helpful in your answers. I am sure that all committee members join me in wishing you all the best as you go on to greater things.

Nicola Sturgeon: Thank you. I thank the committee, too. It has been a pleasure to work with you, and we have always had a constructive relationship, which I hope will continue—albeit in another capacity.

The Convener: That ends the public part of the meeting.

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