



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 25 February 2015

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PUBLIC AUDIT COMMITTEE

4th Meeting 2015, Session 4

CONVENER

*Paul Martin (Glasgow Provan) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Nigel Don (Angus North and Mearns) (SNP)

*Colin Keir (Edinburgh Western) (SNP)

Stuart McMillan (West Scotland) (SNP)

*Tavish Scott (Shetland Islands) (LD)

*Drew Smith (Glasgow) (Lab)

*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Caroline Gardner (Auditor General for Scotland)

Graeme Greenhill (Audit Scotland)

Brian Howarth (Audit Scotland)

Ursula Lodge (Audit Scotland)

Sandra White (Glasgow Kelvin) (SNP) (Committee Substitute)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 25 February 2015

[The Convener opened the meeting at 10:00]

Decisions on Taking Business in Private

The Convener (Paul Martin): Good morning. I welcome members of the press and public to the fourth meeting in 2015 of the Public Audit Committee, and I ask all present to ensure that their electronic items are switched to flight mode so that they do not affect the committee's work. I have received apologies from Stuart McMillan, and I welcome Sandra White to the meeting as his substitute.

Agenda item 1 is a decision on taking agenda items 6 and 7 in private. Are we agreed?

Members indicated agreement.

The Convener: Agenda item 2 is a further decision on taking business in private. We have already agreed to report on the evidence that we have taken on the 2013-14 audit of NHS Highland. Do members agree to consider that draft report in private at future meetings?

Members indicated agreement.

Section 23 Reports

"The Scottish Government's purchase of Glasgow Prestwick Airport"

10:01

The Convener: Agenda item 3 is an evidence-taking session on the Auditor General for Scotland's report, "The Scottish Government's purchase of Glasgow Prestwick Airport". I am delighted to welcome Caroline Gardner, the Auditor General for Scotland, and from Audit Scotland, Brian Howarth, assistant director; Graeme Greenhill, senior manager; and Ursula Lodge, audit manager.

I understand that the Auditor General wishes to make a brief statement about the report.

Caroline Gardner (Auditor General for Scotland): The report that I am bringing to the committee today looks at the Scottish Government's purchase of Glasgow Prestwick airport in November 2013. The Government bought the airport through its executive agency, Transport Scotland, to protect jobs and safeguard what it considered to be a strategic infrastructure asset.

The Government established a company, TS Prestwick Holdco Ltd, to oversee the airport on its behalf, and it is now providing the airport with loan funding, on which it is charging what is known as a European Union reference rate of interest, which is broadly equivalent to the interest rate that a commercial lender would charge. The airport will start repaying the loan funding once it can demonstrate positive operating cash flows.

My report assesses whether the Scottish Government's approach to the purchase of the airport was reasonable, including the quality of business and financial planning that informed its decision to buy. The report also considers the future plans for the airport's development, and the governance arrangements that have been put in place since the purchase. It is important to note that the Scottish Government is still assessing a number of potential future developments for the airport. They will take time to put into effect, and we will continue to monitor developments and will follow up that work at a later date.

I will briefly summarise my findings under three headings, the first of which is the Scottish Government's purchase process. Overall, we found the purchase process to be reasonable, given the tight timescale of just six weeks to undertake the required due diligence and negotiate the purchase. However, there are two areas worth noting. The Government identified the risks associated with the airport's commercial

viability but, because of the time constraints that it was working under, it neither modelled the impact or likelihood of those risks nor included their potential impact in the financial forecasts. The positive financial return on the investment, as set out in the purchase business plan, is based on optimistic assumptions for future passenger growth. Our own financial modelling has shown that, with less optimistic future passenger growth assumptions, the Government could still have reasonably expected to receive a return on its loan funding at the time when it was considering the purchase. Nevertheless, it is worth emphasising that the eventual return will depend on future developments that will affect the airport's sale price, passenger numbers and other assumptions.

Secondly, in relation to the Government's arrangements for monitoring the airport's performance, we found that the Government has established good governance arrangements to monitor the airport's on-going financial and business performance. They include clear risk management processes, effective reporting on the airport's business and arrangements for scrutinising the airport's operations.

Thirdly, on current plans for the airport's future development, the latest available plan for the airport, dated May 2014, estimates a total loan funding requirement of £39.6 million up to the financial year 2021-22. Some £11.6 million of that funding is expected to cover losses from core trading activities, with the rest needed to clear an essential maintenance backlog and to cover capital investment. As at January this year, the Scottish Government has provided the airport with a total of £9 million of loan funding, and it has committed to providing a further £16.2 million to the end of March 2016 if that is required. The total amount of loan funding that will be needed is still uncertain, because of a number of possible development opportunities for the airport that the Scottish Government and the holding company are currently exploring, but it might be some years before the Government can achieve its aim of selling the airport back to the private sector.

The report makes a number of recommendations for the Scottish Government. In particular, we think that it should now develop robust business and financial plans, including clear assumptions and forecasts for the loan funding that will be required, together with a well-defined and regularly reviewed exit strategy. We have also developed and included in the report a checklist that public bodies can use in future investment decisions.

As always, convener, my colleagues and I are happy to answer any questions that the committee might have.

The Convener: Thank you for that opening statement, Auditor General. I will start with a couple of questions about the report.

Paragraph 2 of the report contains some detail about the challenges that the Government faced in relation to the six-week timescale that you have mentioned and notes that some forecasts could not be made because of the time constraints. In the private sector, takeovers happen every day; in fact, they are happening as we speak. Why was the Government not able to make those forecasts in that six-week period? Surely resources would have been provided to the Government to allow it to do that, and it should not have been prevented from making those forecasts. From your experience, why could that not happen?

Caroline Gardner: I will ask Brian Howarth to say a bit more about the detail of what was and what was not done, but first of all, I think that it is important to make the broad context clear to the committee. In a sense, the airport purchase was not the kind of commercial takeover or acquisition decision that one might see in the private sector; it was a policy decision that was taken by the Government to prevent the airport's imminent closure. As Auditor General, I take the perspective that such a policy decision is outside my remit. My interest is in how well the Government, having taken that policy decision, went about implementing it, and my overall assessment is that the process was reasonable.

Brian Howarth might want to say something about the constraints that prevented the full modelling of the particular items that we have identified in the report.

Brian Howarth (Audit Scotland): When we looked at the activities that took place over the six-week period, we found that the Scottish Government carried out an extensive amount of work to prepare the business case and supporting financial plan and to carry out due diligence checks in a number of key areas. The amount of work that was carried out in those six weeks seemed to be appropriate and reasonable in comparison with other short-term deals in the public sector. Her Majesty's Treasury guidance on completing business plans was actually pretty well adhered to within the six-week time constraint. Usually, much longer periods would be allowed for such decisions.

The Convener: I appreciate that, but what prevented the Government from being able to make the forecasts during that period? We are talking about the commitment of a significant sum of public money. Were there resource implications with regard to the provision of information? Was some of the information not available during the period? Exactly what information was missing that

prevented the Government from producing those forecasts?

Brian Howarth: In our report, we refer to certain elements about which Scottish Government representatives did not have sight of some detailed financial information. Although the information had been prepared by financial advisers during the period, it did not become known to some Scottish Government officers until after the decision was made. That is the reason for some of our comments about the absence of evaluation that we might have expected during the six-week period.

The Convener: It is important to recognise that a significant sum of public money has been spent. As we have seen, information was not made available to the Scottish Government until after the acquisition took place. Surely, given the sums involved, the potential implications and the need to ensure that the money can be returned and that the public purse can benefit, it is unacceptable that such information was not provided. Was the information available but not provided, or was it not asked for in the first place?

Brian Howarth: The information that we are talking about specifically concerns the detailed spreadsheets that supported the financial plan. Some PDF versions of that information were made available during the period, so summary information was available during the decision process. However, officers were not necessarily able to drill into some of the detail behind that in the way that we were able to in our audit activity after the information was made available.

Caroline Gardner: Again, the context is important. At the point of purchase, the purchase price was £1. Beyond that, a significant amount of public money has been committed and will potentially be required up to the date when it is expected that the airport will start to generate positive cash flows.

The process of getting to the decision to purchase was important. The work beyond that to drill down into the detail and ensure that those assumptions stood up and that what was needed to return the airport to financial sustainability was understood did not necessarily need to be done in the six weeks. That is why we are focusing now on the detailed work that needs to be done to take things forward, while recognising that elements of the original purchase decision could have been improved.

The Convener: Surely, for the Government to understand the task that lay ahead of it and the potential expenditure on the project, it should have had some idea of the forecasts, and information should have been provided to allow it to take that decision. The Government was in the position of

committing itself to the future of Prestwick airport, while understanding all the challenges that it faced in securing the 3,000 jobs attached to the airport. At the same time, it needed to be completely aware of the responsibilities that it was taking on board. Surely that information should have been sought or provided in some context.

Caroline Gardner: I absolutely agree with the principle behind the point that you are making. This decision is not trivial by any means; it represents the commitment of a significant amount of public money. However, as you will see in one of the exhibits in the report, we think that, overall, the process that was undertaken in making the decision was reasonable. We have identified a couple of places where the process could have been improved, and we have included that information in our checklist for the future. The challenge now is to ensure that the planning to return the airport to financial sustainability—or to exit, if that is the right thing to do—is detailed and robust.

Mary Scanlon (Highlands and Islands) (Con): I certainly welcome the clarity contained in the report. Following the convener's comments, I want to look at the report's recommendation that it might be

"some years before"

the airport can be sold

"back to the private sector."

I also want to focus on financial viability and some figures that have changed and to move on from the convener's questions by considering the need to look forward.

Paragraph 52 of the report states:

"The revised business plan ... forecasts a total loan funding requirement of £39.6 million ... compared to £21.3 million ... in the purchase business plan."

There has actually been almost a doubling from £21 million to £40 million in the forecast total loan funding requirement, which I find quite concerning.

I see that, according to exhibit 8, annual passenger growth has been revised from 10.2 per cent to 6.5 per cent. I appreciate that that information is commercially sensitive, but it is nonetheless worth putting on record that that represents a significant reduction in projected passenger growth.

Exhibit 10 shows that actual passenger numbers fell by 15.2 per cent in the period 2013-14. That is the bad news; the good news, of course, is that, according to exhibit 11, freight numbers have increased by 26 per cent. That is still short of Glasgow airport's 34 per cent increase, but it is significant nonetheless.

The convener's questions focused on the purchase of Prestwick airport, but I am concerned about the increase in the loan, the significant decrease in passenger numbers, the reduction in projected growth—I appreciate that that information is commercially sensitive—and the need to look forward to the exit strategy. When do you think Prestwick will be financially viable? The market is very competitive, and my understanding is that the airport depends on one significant carrier, which has already significantly reduced its flights in and out of Glasgow. I am looking for more in the way of forward projections, given the significant uncertainty that has emerged in the year or two since the purchase. When do you think the exit strategy will happen, and when will the airport be financially viable?

10:15

Caroline Gardner: There is a lot in there, Ms Scanlon. I will have a first go, and I am sure that my colleagues will want to chip in.

On your first question, which was about the increase in the total loan funding required between the production of the purchase business case and the revised business plan in 2014, you are right that the required funding has increased significantly from about £21 million to nearly £40 million. Most of that difference reflects the estimated capital investment required to reverse the essential maintenance backlog that was inherited with the airport and, importantly, to invest in the development opportunities that the Government and the holding company believe are key to returning the airport to financial sustainability. That is related to the developments that the Government is looking to pursue as part of its strategy.

Mary Scanlon: Coming back to a point made by the convener, was the essential maintenance backlog made known to the Scottish Government prior to purchase, or was it just discovered following the purchase for £1?

Brian Howarth: At the time of purchase, the original estimate in the business plan of the total cash-flow support that was needed included estimates for external backlog capital maintenance expenditure. Those estimates were revised in the later business plan that was drawn up after the purchase.

There were a couple of minor issues in the original business plan about whether inflation was or was not included in some of the capital maintenance figures. My colleague Ursula Lodge has looked at some of the detail of the increase between the original business plan at the time of purchase and the later revised business plan.

Mary Scanlon: The main issue behind the loan funding almost doubling was the essential backlog maintenance. That was quite a significant revision between the time of purchase and reality, was it not?

Caroline Gardner: The total increase is mainly capital investment, some of which is essential investment in the maintenance backlog. However, some of it is the investment required to return the airport to financial sustainability—in other words, investing in some of the projects that are required to bring the airport up to a standard where it will be able to generate positive cash flows in future. Both of those form part of the change from £21.3 million to £39.6 million.

Graeme Greenhill (Audit Scotland): I can chip in with a specific example. When we went to the airport as part of the audit, we saw that the retail area of the airport was being revamped, and it is thought that that move will help generate additional income in the future.

Caroline Gardner: If you are comfortable with that, Ms Scanlon, I will move on to the other parts of your question. On the passenger forecasts, I said in my opening remarks that one of the things that we felt could have been improved in the purchase business plan concerned the fact that the passenger forecasts were optimistic. They were higher than the Department for Transport forecasts for the UK as a whole, and they were optimistic in the context of what had previously happened at Prestwick.

However, we found that remodelling with less optimistic forecasts would not have changed the purchase decision at that point. A particular complication for Prestwick is its reliance on a single passenger carrier, which means that there is a risk of a large reduction in one go. We absolutely recognise that that would be much less of a risk if the carriers were greater in number and more diversified. It is also worth noting that Prestwick is unusual in that only about 50 per cent of its income is passenger related. It has, as you have identified, a heavy freight business that, in the year since purchase, has grown more than such businesses in most UK airports.

The future business plan, which is summarised in another exhibit in the report, is focused not just on growing passenger numbers but on growing the freight business and on other developments with regard to aircraft repair and maintenance and similar things. The business plan is diversified to reflect Prestwick's existing business. That is not to say, of course, that there is not a good deal of uncertainty about all those initiatives, but compared with many UK airports, they are unusual. That will affect the airport's future potential.

We think that 2021-22 is a reasonable estimate for when the cash flows may turn positive, and that is very much in line with the estimates that were made at the time of purchase in November 2013. However, I stress again that, as the report says, there is a lot of uncertainty in that estimate related to the future capital funding that might be required to get to that point.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Auditor general, I congratulate you on a particularly positive report. It appears that the whole process has been very well handled. You have already stated that the purchase process was reasonable, given the tight timescale. Six weeks is not long at all to conclude such a transaction.

I have a question that leads on from one that was asked earlier. Was any significant information not available to the Government at the time that it was considering the purchase—during that tight six weeks—that might have affected a prudent approach to that purchase?

Caroline Gardner: As we have said in the report and again this morning, we think that the approach was reasonable. Exhibit 6 sets out the areas where the business case fell short of best practice. We identified two broad areas. First, the risk of Ryanair pulling out of the airport and the risk of the overall economic outlook were identified but not quantified in the modelling; secondly, the passenger forecasts were optimistic.

In the context of it being a policy decision that was taken to prevent the imminent closure of the airport, the approach was reasonable; equally, given the substantial sums that may be required to return the airport to positive cash flows and the uncertainty around that, it is now time to prepare detailed plans, together with a comprehensive and regularly reviewed exit strategy.

Colin Beattie: But at the time of the purchase, there was no significant piece of information that the Government did not have in front of it?

Caroline Gardner: The caveat to that is in the background information that Brian Howarth gave you—the Government had the high-level analysis that was carried out by its advisers but, at that stage, it did not have the detailed numbers that underpinned that analysis.

Colin Beattie: Which in six weeks, as you say, is reasonable.

Page 6 of the report states:

“Good governance arrangements are in place to monitor the airport’s ongoing business and financial performance. These include ... risk management and effective reporting”.

Were those arrangements in place anyway or are they additional arrangements that were put in

place subsequent to the purchase? I am talking specifically about the audit and risk committee, which is quite important.

Caroline Gardner: The overall approach is a new approach, as the Government has put in place the holding company to keep the airport at arm’s length, recognising—as Ms Scanlon said—that the airport is operating in a competitive commercial environment and that, in order to meet the state aid rules, there needs to be that bit of distance. Graeme Greenhill can give us some information on how much of the detail of that approach is new.

Graeme Greenhill: The holding company was established at the time of the purchase, so it was not functioning during the purchase process per se. Exhibit 5 demonstrates the governance arrangements that were in place for overseeing the purchase process itself. Once the ownership of the airport passed into the Scottish Government’s hands, Holdco was set up and began running things from that point. Its function has developed over time but, as the report says, we are content with the governance procedures that are in place and we think that they will be able to oversee the performance and the risk of the airport going forward.

Colin Beattie: Just to be clear, are you saying that the good governance arrangements that you highlighted were put in place by the Scottish Government subsequent to the purchase?

Graeme Greenhill: Yes, that is correct.

Colin Beattie: In paragraph 16, you comment that the multi-agency group

“is a good example of a number of public bodies working together to achieve a common goal.”

That has been running for some time now. You commented that it was a good example. How effective has it been?

Caroline Gardner: Ursula Lodge will pick up the detail of that. What we focus on in the section from paragraph 16 onwards is the phase before the Government was considering purchase directly and when it was still hoped, after Infratil had made its intention to withdraw from Prestwick known, that another private sector buyer might be found.

Colin Beattie: Is the group still in place?

Caroline Gardner: I do not think so. The multi-agency group was involved in the period up to autumn 2013 when Infratil had made it known that it was considering withdrawing from Prestwick. The group, which was chaired by South Ayrshire Council, was pulled together to look at options for keeping the airport operating on a commercial basis. Ursula Lodge can tell us more about that part of the process.

Ursula Lodge (Audit Scotland): When it became clear nine months after Infratil put the airport up for sale that there was no private sector buyer acceptable to Infratil, South Ayrshire Council, along with Scottish Enterprise and the Scottish Government, pulled together the multi-agency group, which started working with Infratil to support potential private sector buyers.

We have looked at that process and at the minutes of the meetings et cetera, and the main point to make is that the multi-agency group was in place to support any private sector buyer. Its main aim was to secure a private sector buyer for the airport and it looked at possible ways in which it could support such a buyer. Although, in the end, a private sector buyer was not secured, the group was a good example of public bodies working together to achieve a common goal.

Colin Beattie: Paragraph 31 of the report states:

“The Scottish Government’s business case for the purchase generally followed HM Treasury’s guidance.”

Exhibit 6 below that illustrates what looks like a robust process. However, which areas of the Treasury’s guidance were not followed, and what were the reasons for that?

Caroline Gardner: I will summarise the areas that were not followed, and Brian Howarth and Ursula Lodge will be able to give you more detail and reasons if you want to explore them. The first two columns of exhibit 6 have what the HM Treasury guidance sets out as good practice and the third column shows what happened in the case of Prestwick airport.

First, on the strategic case, we found that there was not a clear link between the purchase of Glasgow Prestwick airport and how it would contribute to the relevant national and local economic strategies that it was intended to support. The strategic case said that there was a link, but it did not demonstrate how that operated in practice.

On the economic case, the risks were identified, but the focus did not exclude all the price inflation to ensure that there was a like-for-like comparison of the two options. We think that the commercial case was in line with the guidance. The financial case worked through the implications for the Scottish Government of investing in Prestwick airport, and the management case was adequate, too.

In my opening comments, I identified the areas that were not worked fully through, which were around the risk being identified but not quantified in the case of the withdrawal of Ryanair and the broader economic outlook for the airport, and the passenger numbers forecast being optimistic

compared with the wider information that was available. I ask Brian Howarth and Ursula Lodge whether they want to add anything.

Brian Howarth: I have a couple of comments about the optimism. The absence of some of the detailed supporting documents and spreadsheets from the financial plan probably did not help Government officers see that some of the explanations on passenger numbers were perhaps optimistic.

I will illustrate what I mean by optimism. It is easy to take the figures in exhibit 3, which show the passenger numbers in 2012-13 as being about 1.1 million, and apply the annual percentage increase—the growth rate of 10.2 per cent in the baseline purchase business plan, which is in exhibit 8. That will give you passenger numbers of 2 million by year 6, using the baseline case—there was a more optimistic case than that. That helps to explain why we felt that the assumptions on passenger numbers were optimistic.

10:30

Partly because of time—the six-week period in which the decision to buy was made—and partly because of a lack of some of the back-up information, it was difficult for officers to see that there were some issues, errors or mistakes in the underlying detailed business plan. Caroline Gardner has touched on inflation as being one of those issues. The HMT guidance says that inflation should generally be excluded when calculating the net present value of business plans. That was not done, largely because officers were not aware that that general inflation figure had been in the plan or, if they were aware of it, they were unable to eliminate it when they summarised the data for the business case.

The Convener: I will allow you to ask one more question before we move on.

Colin Beattie: My final question is in the interests of clarification.

Paragraph 52 talks about the amount of funding going from £21.3 million to £39.6 million. The Auditor General said that a good part of that was capital expenditure, which is required to ensure that the airport moves forward and achieves its goal of profitability. How much of that £39.6 million is capital expenditure for that purpose?

Caroline Gardner: Of the total £39.6 million, I think that £11.6 million is to cover losses on the core trading activity, and the remaining £28 million is all capital. The team might be able to give you more information on how the £28 million for capital breaks down, but there are clearly some considerations of commercial sensitivity around that. I will see what we are able to say.

Ursula Lodge: I think that we might come back to you with a note on that one. Obviously, the specifics of capital expenditure and streams will be commercially confidential.

Caroline Gardner: We will come back to you with what we can provide, in that case.

Brian Howarth: There is detail in the business plan. It separates the other element that Caroline Gardner has talked about into capital and maintenance.

Colin Keir (Edinburgh Western) (SNP): Instead of going into the detail of the capital investment programme, perhaps we could consider something that has come up on numerous occasions in the cross-party group on aviation, which I chair. Every airport is having to upgrade quite dramatically. Is it not within the realms of probability that, to keep pace with other airports, that capital investment must be factored in? If it does not happen, Prestwick's customer experience will be diminished in the eyes of passengers and carriers, and the airport will go into a terminal decline.

Caroline Gardner: There is no question but that capital investment is needed to return the airport to financial sustainability, if that can be done. Maintenance is absolutely essential in an airport, for obvious reasons. As you say, this is a competitive environment and attracting passengers from within the market as well as from growth must be part of Prestwick's approach.

Colin Keir: Whether it is within the remit of the present management group or a future one, that stuff has to happen, because of the age of the facility and the way in which it has been handled in the past. Is it not fair to just accept that that investment will have to happen anyway and that, in order to keep the airport at a functioning level, the present management has to consider it?

Caroline Gardner: We absolutely recognise that. Our concern is to ensure that the Government has a full and clear view of what that capital funding is likely to be, what the consequences are for the loan funding that is required and the extent to which that is having the desired effect of returning the airport to financial sustainability, rather than being an open-ended commitment.

The Convener: Before I bring in Tavish Scott, I have a brief question on the six-week timescale, because it keeps coming up in the discussion. Who set the timescale?

Caroline Gardner: The timescale was a direct result of Infratil's decision that, because it had not received an acceptable offer for the airport, it would close it at the end of the six weeks if a different solution was not planned.

The Convener: So it set the timescale and said that the airport would close within that timescale.

Caroline Gardner: That is correct.

Tavish Scott (Shetland Islands) (LD): Infratil did not receive any acceptable offers. Did it receive any offers?

Caroline Gardner: There was a process of offers being discussed. Ursula Lodge is the expert on what we know about the period running up to—

Tavish Scott: All I really want to establish is that no other private sector business wanted to take on Prestwick.

Caroline Gardner: There was interest, but Infratil did not receive an acceptable bid within the timescale that it had set.

Tavish Scott: It accepted £1 from the Scottish Government, so what were those other bids—50p or 25p?

Caroline Gardner: It did not receive a bid from a commercial operator that it felt was acceptable.

Tavish Scott: Exactly. Do we know the reason for that or what the definition of "acceptable" was?

Caroline Gardner: That would be a question for Infratil, not us.

Tavish Scott: So we have no other information on that.

Ursula Lodge: Infratil received a private sector bid, which was brought almost to completion. However, just before completion the private sector bidder pulled out, for a variety of reasons. At that point, the Scottish Government started to look at the situation and Infratil said it would close the airport after six weeks.

Tavish Scott: Sure, but as part of the audit did you look at why no private sector alternative became the way forward for Prestwick? In other words, did anyone actually believe all the projections on growth and so on?

Caroline Gardner: We did not look at that because, as I said in my opening remarks, this was clearly a policy decision by the Scottish Government, which believed that buying the airport to prevent its imminent closure was a reasonable thing to do, on the basis that it would then be in a position to look at whether it was possible to return the airport to financial sustainability. We are saying that that process was reasonable, but now the financial sustainability question needs to be pinned down, because there is a point at which the Scottish Government will return the airport to private sector ownership or, if that is not possible, it may have to consider closure, given the uncertainty that remains.

Tavish Scott: Indeed, and that is exactly where I wanted to go with my questioning.

In paragraph 37, the report very fairly goes through the scenarios relating to passenger growth. Mr Howarth mentioned that, in the year 2012-13, 1.1 million passengers went through the airport. What is the current figure or the figure for the most recent year that you have? I presume that you have audited that.

Brian Howarth: I will get Ursula Lodge to comment on that.

Tavish Scott: I just want the number. Has it gone up or down?

Brian Howarth: It has gone down. You can see that from the diagram.

Graeme Greenhill: Exhibit 10 illustrates that passenger numbers fell by 15 per cent last year.

Tavish Scott: Thank you. It has gone down.

In paragraph 37, you say that all scenarios in the business plan

“assumed continued growth in passenger projections”.

Therefore, that was not an accurate exercise, was it? How could you possibly run scenarios in which everything went up, when the reality has been the opposite?

Caroline Gardner: There are two factors in that. The first is that, as we have said, the modelling did not quantify the risk of Ryanair pulling out. The particular focus in Prestwick on a single passenger carrier makes it difficult to model. It is a fact that it was recognised that that risk was not modelled, but it is clear that it has a yes or no outcome, rather than a growth forecast outcome. Within that particular constraint, we found that the passenger forecasts were optimistic, but once we performed the modelling with less optimistic numbers, we found that that would not have changed the purchase decision. That does not alter the fact that the process of returning the airport to sustainability remains very difficult, but we did not think that using less optimistic figures would have changed the decision.

Tavish Scott: No, because the decision was a political decision to save jobs in Ayrshire, which I understand entirely. I quite understand why the Government would nationalise an asset to secure that; it is an entirely fair policy decision for the Government to get to.

What I am worried about is that in paragraph 37 we have a business plan in which all the scenarios had passenger growth going up, when the reality is that anyone who looks at the airline industry would find that questionable. There had to be some risk that the numbers would go down, not

least because the neighbouring Glasgow airport is pitching for all that business.

Caroline Gardner: We make the point that the figures were optimistic. As we say, the Government has commissioned external advice about future forecasts and it feels that, in the context of the UK-wide figures that are now being used, there is additional potential for Prestwick because of the fall in passenger numbers that it has had in the past and because of the scope for investment to make it a more attractive airport. However, as we say, those figures are uncertain, which is why we think that the modelling of those options, to make clear what the business implications and funding requirements would be, is the next step.

Tavish Scott: I understand that now. That is all very fair, and what you have said is entirely logical.

However, at the time of purchase, when the business plan was being considered, all the scenarios for passenger numbers showed them going up, although surely there had to be a scenario in which they went down, not least because of the uncertainty over the future of the airport. When Parliament was told that we were going to invest in the airport—it was Government policy, which was fair enough—all the scenarios were for passenger numbers going up. Should the Government not have at least considered the potential for those numbers to go down, meaning that the exposure of the public purse would be higher—which has now happened—than was the case when the matter was brought to Parliament’s attention?

Caroline Gardner: We make the point that the passenger forecasts were optimistic. It is important for me to state again that we did not find that that would have changed the purchase decision. However, it makes the planning from here all the more important because of the uncertainty that remains.

Tavish Scott: Thank you. I totally accept that point.

The Audit Scotland report also says that roughly 50 per cent of the airport’s income comes from passengers. The other aspects relate to freight, and you detailed those in an earlier answer. Do you now consider that the freight side of the business and some of the other aspects are much more likely to make the airport sustainable than passenger growth is?

Caroline Gardner: We are not aviation experts. The Government has commissioned experts in an appropriate way to inform both its own business planning and the work that is being done by the holding company. Exhibit 13 sets out the areas that the current business plan envisages as being

growth areas; they relate to the spaceport, freight, property and activity related to aircraft maintenance. There is also the possibility of air passenger duty changing the dynamics. As we say, those are all possibilities and, as far as we can tell, the process that has been gone through was reasonable. Nevertheless, there is a good deal of uncertainty associated with them.

Exhibit 11 shows that the amount of freight increased markedly in the year after purchase compared with the situation at other airports. It did not increase quite as much as at Glasgow airport, but it increased more than elsewhere. That suggests that freight is likely to be one of the ways for the future. We are not in a position to say that passenger growth is not going to happen but, in a very competitive lowland Scotland environment, that question needs to be kept under close review. One of the reasons for our recommendation that the plans be more detailed is that that would allow the funding requirement to be estimated more closely.

Tavish Scott: Again, I think that is fair. Is Prestwick the Government's number 1 location to bid for the spaceport?

Caroline Gardner: I think that it is one of eight sites in the UK that were identified by the Department for Transport as possibilities.

Tavish Scott: The Government must have a preference. Do you know what that is?

Caroline Gardner: I do not know whether we know that.

Brian Howarth: I do not think that the process has reached that stage.

Caroline Gardner: The Department for Transport is due to respond in the spring with an initial evaluation of the criteria. Prestwick airport has simply been identified as a possibility at this stage.

Tavish Scott: Given that the Scottish Government owns the airport, I would have thought that it would be pushing it more than anywhere else. Is that what you found? Did you ask the question?

Graeme Greenhill: We did not push that.

Tavish Scott: Okay.

My final question is on the 50:50 split in income, with 50 per cent of the airport's income coming from passengers, and the capital investment point that you made in answer to Mr Beattie's question. In the context of Glasgow airport having had 22 consecutive months of passenger growth, surely part of the assessment that the experts are undertaking, which I assume you will audit, will be that the capital investment may need to be made on the freight side and in some of the other

aspects that have growth potential at Prestwick—I think that they are where the airport can grow—rather than in the cutthroat business of providing passenger services for Ryanair or any other airline that may choose to base itself there. Are those aspects not the priorities for capital investment?

Caroline Gardner: You would need to pursue the detail of that with the Government because of the commercial sensitivities that we are working with. The capital investment that is required over and above the maintenance backlog is needed across a range of projects. As Graeme Greenhill said, part of what is required is to improve the passenger experience, but it is not only that; investment is foreseen in the other projects that were set out in the strategic vision that was published in the autumn by the holding company.

Tavish Scott: Is £40 million the top number, or will we be back in a year's time talking about more money being put into the airport? How long will this continue? As you said, the Government has given no timescale for when it will come out of the airport, and there is no exit strategy. We have a finger in the air here. We could own the airport for evermore, could we not?

Caroline Gardner: The current business plan, which was published in May last year, sets out a forecast funding requirement of £39.6 million and a return to positive cash flows in 2021-22. We think that the process so far has been reasonable, but we have said clearly that there is a lot of uncertainty about those numbers. That is why our recommendation is about making the plans more distinct and having a clear exit strategy that is regularly monitored and reviewed, with transparency around that, for parliamentary accountability.

10:45

Drew Smith (Glasgow) (Lab): My question is similar to Mr Scott's and is on the issue of the passenger projections being optimistic. Other information was available from Department for Transport projections. Surely if the Government is taking a risk to invest in something, it will use the worst-case scenario. I can understand that there might be things that the Government did not know and that some projections could not be made, but the Department for Transport figures were there. For what reason were they not used?

Caroline Gardner: Brian Howarth is itching to get in on this, so I will answer first and then let him give you more detail.

The Department for Transport figures are UK-wide, so clearly the impact on individual airports will vary. There is judgment involved in weighing up, on the one hand, the trend of reducing passenger numbers over time and, on the other

hand, the sense that with the right investment it might be possible to turn that trend round. A judgment was taken. We think that it was too optimistic but, actually, with remodelling using less optimistic numbers the decision would not have changed.

Brian Howarth can give you more details on that.

Brian Howarth: The key point that was made to us was that the Department for Transport's estimate for between 1 and 3 per cent growth nationally was extended in the assumptions that were made for Glasgow Prestwick airport because of the capacity for growth. Exhibit 3 in the report shows that the high point for Prestwick airport was in 2007-08, when passenger numbers were almost 2.5 million. The point that was made to us was that the assumption of higher growth in passenger numbers than that in the DFT estimates was made because the airport was starting from a low base.

Despite that argument, we still felt that there was overoptimism in the estimates. With the base case estimates, over the full life of the consideration, which is 30 years, the average growth worked out at about 3.5 per cent every year for 30 years. However, it was significant that the growth potential was very much front-loaded in the estimates towards the first six years of the operation, which is why we have the figure of 10.2 per cent growth per year. As I said, that would be almost a doubling of passenger numbers in six years.

Drew Smith: Capacity for growth is just another way of saying that there is unused capacity at the moment, and that could be taken as a risk. There may be capacity to grow. There may be a spaceport at some point and I might have the capacity to be an astronaut, but that does not mean that it is likely to happen.

The report states that, although the risk register included the point that Ryanair could withdraw from the airport, that had not been modelled. I presume that modelling of the consequence of that has been done since.

Caroline Gardner: The May 2014 business plan is based on a range of much more modelling, including those options. It focuses not just on passenger numbers but on freight and other sources of income.

Drew Smith: I am sorry to interrupt, but what is the timescale involved in the 2014 business plan? How far ahead does it look?

Caroline Gardner: That is the one that forecasts a return to positive cash flows in 2021-22.

Drew Smith: Okay. Paragraph 41 states:

"The Scottish Government assessed the airport's credit rating as 'weak'".

I presume that, even though we are potentially doubling the loan, the Government would still consider the credit rating to be weak.

Caroline Gardner: The issue in the report that you are focusing on there is the decision about what the effective interest rate should be in order to comply with state aid rules. We think that that decision is reasonable; it does not directly affect the decision to continue investing.

What we think should affect that decision is the detailed plans about how the airport will be returned to financial sustainability and the monitoring of whether that is being achieved in practice across each of the strands—passenger growth, freight, the other businesses and the airport—when we know more about it. What you are asking about is a particular technical issue related to state aid rules.

Drew Smith: The timescale for when we might expect to get some money repaid is 2021. What timescales are Ryanair operating on?

Caroline Gardner: We are not in a position to answer that, I am afraid. We cannot answer for Ryanair. Clearly, it is making—

Drew Smith: So there is not a contract or something in place that says that it would take five years or 10 years. We do not know that.

Caroline Gardner: I do not know what we are able to tell you about it, but Ryanair is clearly working on very different commercial timescales from the Government's decisions about investing in the airport.

Would the team like to say anything about that?

Brian Howarth: We understand that there is not a contract in place. The arrangements are less formal than a contract. I am not sure whether a contract is in the nature of the business of airline operation. If there was a contract, that might help to mitigate the risk of reliance on one operator, but I am not sure that it is in the normal way of business to have such things.

Drew Smith: Okay.

The Convener: Is there some way in which we can clarify whether that is the case? To be fair, it is pretty loose to say that we are not sure whether there is a viable contract in place or what the national arrangements are. Is that something that you could follow up? Perhaps you could write to the committee about it. It would help to have clarity—not about the contractual arrangement, but about the industry norm and whether a contract is usually a place or not. Could we get more information on that?

Caroline Gardner: Certainly.

Drew Smith: I touched on the doubled amount that we are going to loan, which is predominantly taken up by capital. You said that you will try to provide us with a bit more information, and I think you said that you will give us the subsidy per operation versus the capital investment, but can we also get some breakdown within the capital investment? I can understand that we want to loan money to invest in a Tie Rack, a sandwich shop and whatever else on the airport concourse, but if the long-term future of the airport is not to be a passenger airport, that seems a strange investment decision to take now, without knowing that there is a desire to stay in the passenger business for the long term.

Caroline Gardner: Within the £39.6 million, £11.6 million is the amount forecast to underpin the operating loss, if you like, up to 2022. The other £28 million is a combination of loan funding to support capital investment. We will give you what more information we can on that, but there will be limits to how far we can break it down because the airport is now operating as a commercial entity through the arm's-length holding company.

You are absolutely right that the breakdown of that capital funding needs to support the likely future of the airport, and that needs to be tested out against the uncertainties related to each strand of investment. What I am saying is that there may be a limit to how much information we can provide about that in public because of the commercial environment in which the airport is operating.

Drew Smith: Would it not be prudent for the investment to be made in the essential maintenance that you talked about and in things that are about the basic capacity of the airport? I can entirely understand that we might want to invest in the passenger experience in the hope that we will get more passengers, but the taxpayer is standing behind this investment and we could just continue investing in the experience for ever and a day. It could be a fantastic experience, but we could still have no passengers.

Caroline Gardner: Work has been done to produce a revised business plan that contains a number of initiatives or potential opportunities that may return the airport to financial sustainability, but there is uncertainty attached to them all and their overall grouping. Our key recommendation is that those detailed plans, plus a regularly reviewed exit strategy, need to be in place to bridge the gap and take us from the position where £9 million has been invested to the position where around £39.6 million is potentially invested based on the business plan over the next seven years.

The Convener: Mr Greenhill mentioned that the retail investment is part of the challenges that we face in the forecasts. I am sorry if I am wrong in saying this, but he gave the impression that that investment decision had been taken.

Graeme Greenhill: It is a work in progress, as it was at the time when we visited. The airport has a capital plan, which sets out its intention for forward capital investment. As Mr Keir said, some of that is related to essential matters, such as health and safety and regulatory requirements; some of it is related to matters such as enhancing the customer experience—

The Convener: I just need clarity before we move on. When you say “work in progress”, has the money been committed to carry out the work? Drew Smith’s question is about why we are investing all this money in retail when we might not have the passenger numbers that we need. Has there been a capital investment commitment on the retail area in Prestwick airport?

Graeme Greenhill: Part of the loan funding that the Government has provided to date is, first, to cover annual losses and, secondly, to support capital expenditure and the examples that I just cited.

The Convener: Retail improvement work is going on.

Graeme Greenhill: Yes.

The Convener: Does that not slightly contradict Drew Smith’s point that we are investing in the retailer area to improve the customer experience when there might be challenges faced in increasing passenger growth?

Caroline Gardner: The increase in passenger growth is one part of the strategic vision that was published towards the end of last year, but it is not the only part. We have made the point that there is uncertainty about all its parts, so detailed plans are needed to identify what further funding may be required.

As at January this year, the Government has provided £9 million in loan funding to the airport. It is committed to provide a further £16.2 million by March 2016, if that is required. The gap between that amount and the £39.6 million is set out as the possible funding requirement up to the end of 2022. It is that process of identifying what funding will be required for which pieces of work and on what business planning basis that is needed to ensure that it is as likely as it can be to return the airport to sustainability or to be clear when an exit strategy other than that one is needed.

Sandra White (Glasgow Kelvin) (SNP): Good morning. Thank you for the report. There are very positive elements in it—the financial return and the good governance in terms of the monitoring of the

airport's on-going business and financial performance.

I want to pick up on a couple of points. I do not want to go way back to the start, but Mr Howarth mentioned that the Scottish Government adhered to the Treasury guidance on completing business plans. The convener mentioned the context of safeguarding 3,000 jobs. Am I right that it would be within the Treasury guidance to go forward in six weeks in the strategic plan? A straight yes or no answer would be fine.

Brian Howarth: Yes, that could be a key part of the strategic case.

Sandra White: Thank you—I just wanted that point to be clarified. Obviously, the knock-on effect to the economy, not just in Ayrshire but in Scotland as a whole, of 3,000 people losing their jobs would be massive.

On page 20, paragraph 33, you mention:

"The Scottish Government made good use of external advisers".

Will you elaborate on that, or is the paragraph sufficient in saying that the Scottish Government went forward in the proper manner when looking at external advisers and getting in advice?

Caroline Gardner: I do not think that we want to add very much to what we have said. In paragraph 33, we give a bit more background about what the external advisers looked at and, as we say on the previous page, we feel that the approach to making the purchase decision was generally reasonable and complied with Treasury guidance.

We have identified a couple of areas where things could have been improved, and we also say in our checklist that it is very important for civil servants to be able to challenge and scrutinise this information. Indeed, Brian Howarth has already mentioned some of the underpinning information that only became available later. However, our overall assessment is that the process was reasonable.

11:00

Sandra White: Thank you very much—that was helpful. We should remember that we are talking about a six-week timescale and that the public purse is involved.

With regard to paragraph 37, which relates to the business plan and the positive financial return that was demonstrated in it, Drew Smith has already picked up on the point that passenger growth assumptions

"were higher than the Department for Transport's ... aviation forecasts."

As has been pointed out, those forecasts relate to the UK. However, the assumptions of bigger aircraft manufacturers such as Boeing and Airbus were also taken into account, and the assumptions made in the plan were lower than them.

I am sure that many people around the table will know that Prestwick was the only airport in Scotland that was never fogbound—indeed, it still is—and that, consequently, it did the long-haul passenger flights. Although, as has been noted, the business plan took into account the Department for Transport's UK-wide aviation forecasts, it also looked at the other side and the assumptions made by bigger manufacturers in relation to long-haul flights. Is that not a fair comment to make in the report?

Caroline Gardner: We recognise that the business case considered factors such as the generally favourable weather conditions and the longer runway at Prestwick. There is no question about that. However, we also concluded that the passenger number forecasts were optimistic. You are right that they are lower than the forecasts published by Boeing and Airbus, but that is not surprising given that Boeing and Airbus are in the business of selling aircraft rather than buying airports. If those particular assumptions had been used, we would have had more concerns; they were not, and the assumptions in the business case were below them.

As I have said, there is a judgment to be made about how much spare capacity can be recouped and how much of it is likely to be surplus to requirements for ever. Our own judgment was that the numbers were too optimistic, and when we used lower numbers we found that that would not have changed the decision. I am not sure that there is much more that we can add to that.

Sandra White: Something that will have a direct effect on what is set out in paragraph 37 is air passenger duty. Unfortunately, people in Scotland have to pay air passenger duty to go down south in order to catch a long-haul flight, for which they also pay duty. If, as the Smith commission has recommended, air passenger duty were to be devolved to the Scottish Parliament, would that have a positive knock-on effect for Prestwick and the long-haul flights that were its business in the past?

Caroline Gardner: We know that the holding company is modelling the effects of devolving air passenger duty and different levels of that duty; its view is that it would have an effect. We are not yet in a position to assess that, not least because we know that under European Union rules air passenger duty would have to be the same in all Scottish airports. As a result, the possible impact on Prestwick is not at all clear.

Sandra White: As paragraph 67 makes clear, the UK Government has identified eight potential sites for a spaceport, six of which are in Scotland. I thank you for your report, Auditor General, but the fact is that you always err on the side of caution; indeed, as you have said, that is your job. If Prestwick were to be the chosen site, would that have a knock-on effect on its viability?

Caroline Gardner: If Prestwick were to be identified as the successful spaceport site for the UK, that would clearly open up different opportunities. I guess that there would be risks associated with it, but there would be opportunities for income growth and other services. As you have said, Prestwick is one of eight UK-wide sites as well as one of six Scottish sites, and any decision will have a big impact on the plans that need to be made for it. It is one of those classic areas where there is great uncertainty until that particular point is reached.

Sandra White: Could I maybe ask a cheeky question? Would it have a positive impact on Prestwick airport if it was designated as the UK spaceport?

Caroline Gardner: I cannot ignore the fact that there would be risks associated with that, but there is no question but that it would open up a range of new opportunities.

Nigel Don (Angus North and Mearns) (SNP): I first want to pick up on the economic evaluation of what is going on. I understand that you will find it relatively easy, in your professional endeavours, to audit a business where there is a balance sheet and an income and expenditure account. Those numbers are relatively easy and that is what we all do very well. However, paragraph 21 provides some estimates of the number of jobs that depend on Prestwick airport, which indicates that what happens at the airport has a much wider economic impact, which ought to be evaluated in some way or other. Even if the airport is, for example, simply breaking even, surely that is positive for the local economy and for the Government—although I am not quite sure which Government; I do not want to get into a political discussion about that. Can you give me some clues about what evaluation you could make of the impact of this endeavour or any other on the wider economy? I think that that positive impact is missing from the analysis.

Caroline Gardner: That evaluation is missing from the analysis and stems from the fact that it was not quantified in the Government's business case for purchase. It was clearly a policy decision. We acknowledge the Government's right to make a policy decision, based on the earlier analysis, to purchase the airport in order to stop it from closing, to safeguard jobs and to reduce impacts on the local economy and more widely in Scotland.

In exhibit 6, we talk about the strategic case and the economic case that were contained in the business case at the point of purchase. Those relationships were identified but not clearly quantified at that stage. That is one of the areas that we think could have been improved. Equally, they are not straightforward things to do in ways that work everything through. Brian Howarth may want to add to what we found about what was done at that point.

Brian Howarth: No—that assessment is fair. One of the possible criticisms of the original case was that the wider economic evaluation was not expressed in the business case.

I accept that even if the airport had been breaking even, that would have been a good thing. However, because the airport is in a competitive market, there is an additional level of complexity, which is the requirement to comply with European Union state aid rules on intervening in competitive markets. If the airport was breaking even but could not make its state aid returns to the Scottish Government, that would have potential implications for compliance with EU state aid rules.

Nigel Don: Thank you. I understand that there might be issues about how a Government can fund such an endeavour. It might be an extremely good idea if Governments did not do such things except in extremis, and that they get rid of such businesses as fast as they decently can.

However, I am concerned that at this stage your analysis—in exhibit 6, as you have indicated—has only just looked at the economic case. I am left with the impression that if you were to come back to us on this in a couple of years—which I imagine you might well do—your analysis would still not include any numbers relating to what is going on in the economy. I would have thought that that would be important, in order for us to understand what is going on.

Caroline Gardner: It is important. However, I would turn that round and say that, at that stage, we would expect the Government to be providing that information in order to justify its investment through loan funding. It was not quantified in the business case at the time of the purchase decision. It is one of the things that we think should be done in finalisation of plans for development of the airport in order to return it to financial sustainability or to conclude that that is not possible.

Nigel Don: Right—I am with you. Thank you.

In paragraph 51, you say that

“the Scottish Government commissioned an aviation expert to prepare a revised business plan”.

That has to come with the normal caveat; I have no idea who these experts are. What follows is not intended to imply that they do not know what they are doing, that they are bad people or that they are unprofessional. However, suppose that they were. You and I could put together a plan. We could probably make it look reasonably credible. Competent people can do that. Consultants work like that. How certain are you that Transport Scotland and the rest of the Scottish Government are able appropriately to understand the advice that they are getting in such a way that they can see the limits? How much of it is professional judgment and how much of it is real?

Caroline Gardner: You have put your finger on a real dilemma. We make the point in the checklist that we have included in appendix 1 that, in that sort of situation, it is critical to ensure that the public body has the appropriate skills to appoint the right experts and to test and challenge the advice that they are getting. We drew the conclusion that, in this case, the process was reasonable, including an appropriate expert being appointed.

The strategic vision that the holding company published in the autumn last year combined the advice from its consultant with its own thinking about the opportunities and risks that were associated with the airport, and it set out the areas where it feels that there is scope. That looks reasonable to us, but we make the clear point that there is a lot of uncertainty associated with it. When we come back to the matter, we will be looking at exactly how that strategic vision has been developed into detailed business and financial plans, and how those plans have been tested and challenged in exactly the way that you describe. At this stage, we have no reason to say that the expert was not appropriate and competent to do what was needed, but it is a continuing process of testing that—both against other perceptions and perspectives and against reality as it unfolds. Forecasting the future, as they say, is always difficult.

Colin Keir: There is an awful lot in the report that I find quite good. Identification of the problems that the airport has had over the past few years is not a state secret, is it? We all know what it has been like and how important the airport is for the economy, particularly in Ayrshire and south-west Scotland.

There are some things that I want to know, because things have changed even since the report was written and there have been changes of airport ownership in Glasgow and Aberdeen. Glasgow is a commercial entity that is fighting against an equally big entity in Edinburgh airport and has changed ownership, so there is a real competitive fight going on. One thing that could be

discussed, and which also ties in with the question of air passenger duty, are the reports by the likes of York Aviation and PricewaterhouseCoopers that came out about two and a half years ago. They explain that air passenger duty adversely affects Prestwick airport, compared with Edinburgh and others.

We have seen more dynamic management from Glasgow and Edinburgh airports, compared with Prestwick. The new management set-up will be strongly seeking new business. Are you content that the airport's current management set-up is able to look for new business, particularly given the competitive edge that Edinburgh and Glasgow have, at the minute?

Caroline Gardner: We cannot give you a definitive answer to that. The strategic vision that the holding company published last autumn is based on reasonable preparation from the consultant that was appointed, and on a wider view of the opportunities that are available to the airport that it now runs. The strategic vision looks reasonable, but what we are recommending first and foremost in the report is that that vision needs to be pinned down into detailed financial and business plans and that the Government needs to be clear about how it is going to review how those plans are to be achieved in practice, their success or otherwise, and how it will make decisions about either continuing loan funding or implementing a different exit strategy, if that is what is needed. The key point is that the decisions so far have been reasonable, but there is still a great deal of uncertainty that needs to be monitored and managed closely.

Colin Keir: I am glad that you keep saying that a reasonable way of working has been adopted. I do not think that there is anything particularly controversial about the decision that the Government took. It came down to a political angle—the Government wanted to save jobs and protect the economy. I think that it had its hands tied behind its back.

I appreciate the difficulties that the airport has but, from what I can see in the report, the general—

The Convener: Can we stick to questions, Colin? You can ask one final question, then we will move on.

Colin Keir: Okay. You are obviously satisfied with the management of the takeover bid and the way that it is proceeding.

Caroline Gardner: My finding in the report is that the process that the Government undertook in making the purchase decision was reasonable and that it is now time to establish detailed financial and business plans, along with regular review of the exit strategy to see how well those plans are

being achieved in practice and whether an alternative decision needs to be taken.

11:15

Drew Smith: I have a general point. Quite a lot of the conversation has been about the policy decision. Colin Keir talked about the devastating impact that closure would have had on Ayrshire, in particular, and on the whole of the Scottish economy. I think that we all appreciate that.

Mention has been made of the six weeks that the Government had to draw up the case for taking over Prestwick. I accept that, but it must have had a longer-term interest, given that we are talking about a strategic asset that was not in public hands and that the impact on the public purse would have been great if people had been made redundant or businesses had closed.

Are there any lessons from the process that you have been through in relation to Prestwick that you think are worth sharing in relation to our approach to such issues in general. We hope that such situations will not arise too often, but does the expertise exist in the public sector to deal with them, given that the likelihood is that, when they arise, the timescales will be short? How do we do the long-term planning when the situation is not as urgent?

Caroline Gardner: I think that that is a really good question. I will answer it briefly on two levels.

First, the checklist that we included in appendix 1 summarises our learning on what would make the process go as well as it could. Many of the measures in checklist 1 were taken in relation to Prestwick, although we have identified some areas in which things could have been done better, so we have captured those in the checklist.

Drawing back a bit, I am increasingly conscious that the Government is making decisions about economic interventions pretty frequently—I am referring to the decision about Pelamis, the decision about Prestwick and the decision to provide grant support to Ineos. We can all name other examples. I am interested in pulling back and asking how the Government prioritises those decisions, rather than always looking at the imminent decision that needs to be made. That is one of the issues that I am considering in relation to my future performance audit work, and I may report to you on that in the future.

Drew Smith: That would be very welcome. Thank you.

Tavish Scott: I want to ask a supplementary about the point that you have made regularly about the development of detailed business plans. Are you confident that those plans will be realistic when it comes to passenger numbers, rather than

representing an “optimistic”—to use the word that you used—assessment of what they might be in an ideal world?

Caroline Gardner: That is a difficult question to answer definitively. We have found that the process so far has been reasonable, although the passenger numbers were optimistic. We all know that, in managing large projects—not just in the public sector, but elsewhere—optimism is a problem that people need to be aware of. That is why there is an optimism bias allowance in capital investment.

As we say in the report, we will watch how the situation unfolds; we expect the Government to do that in respect of decisions about future loan funding. That is one of the reasons why we made the two-part recommendation about developing detailed financial and business plans and continually reviewing and testing those to inform further investment decisions.

Mary Scanlon: I would not want anyone to leave the meeting assuming that, because the Scottish Government owns Prestwick airport, it will be a front-runner for acting as the UK's centre for space travel. As an MSP for the Highlands and Islands, I must put on record the fact that Lossiemouth has long been a front-runner in that particular race. Although £40 million is going into Prestwick, many, many millions have been put into RAF Leuchars, RAF Kinloss and RAF Lossiemouth, as well as at Campbeltown and Stornoway. If the economic case existed, I think that they would be fighting their corners.

Will you come back to the issue? Will you keep an on-going watch on the situation? Will you continue to analyse it? There has been a lot of uncertainty since the Government bought the airport for £1 and there have been many changes in the forecasts. When will you get back to us? What are your future plans for monitoring and analysing the situation at Prestwick?

Caroline Gardner: We will continue to monitor it. Brian Howarth is the auditor of Transport Scotland, and that is one of the issues for him to consider in his audit work every year.

At this stage, I do not want to make a commitment on when I will come back to the committee; it will depend on how things unfold. I will come back when there is something to report. I do not mean just when there is a problem, but when there is something to report across the board. I give a commitment that I will come back to the committee when I think that something has happened that will add to your deliberations.

The Convener: I have one more question before we finish. Is the previous owner still in business? Does it still operate airports?

Caroline Gardner: The team will keep me straight, but I think that, as well as being based on Prestwick's performance, Infratil's decision was part of a wider strategic decision to withdraw from airports.

Graeme Greenhill: Infratil also owned Manston airport and Lübeck airport in Germany. The company has sold both those airports but, as far as we are aware, it is still trading. We think that it has refocused its efforts in New Zealand, which I think is where it originally came from.

The Convener: In relation to Infratil's exit strategy, there could have been costs associated with contractual obligations that it would have had if it had gone into receivership. I know that the Government purchased the airport for £1, but that could have been advantageous to the seller, because it might have had contractual obligations that it would have had to have met that could have cost much more. Was that taken into consideration?

Graeme Greenhill: Part of the due diligence work would have been to look at whether there were any contractual obligations that the airport was required to meet. It is fair to mention that, in accepting £1, Infratil wrote off the debt that was associated with the airport.

The Convener: That is helpful.

I thank the witnesses very much for their evidence, and I suspend the meeting for five minutes.

11:22

Meeting suspended.

11:28

On resuming—

“Accident and Emergency: Performance update”

The Convener: We move to item 4, under which we will consider a response from the Scottish Government to the committee's “Report on Accident and Emergency—performance update.” There are two areas in which the Scottish Government has committed to come back to the committee with further information. Members have a letter from Audit Scotland confirming that it is preparing an impact report on its previous report, “Accident and Emergency: Performance update”. The impact report will be published after the summer recess, and we will comment on the areas that we have identified in paragraph 38 of our report.

I invite questions and comments from colleagues.

Mary Scanlon: I note from paragraphs 3 and 4 of paper 3 that the Scottish Government will provide further updates, which I would welcome. I find it quite incredible that we have to wait for three months to get a definition of “self-referral”—only one person can self-refer, and that is oneself. I find it slightly odd that we have to wait for three months to get a definition of ourselves, but there we are. I have been around for only just over 60 years, and I look forward to getting a definition of myself so that if I self-refer in future, I will know who has done it. I look forward to getting a definition of “self-referral” in three months' time.

I also had my sceptical hat on when I read the Government's response to the committee's report. It has responded with recommendations that mainly commit to reviews, collaboration, sharing good practice and a lot of other civil service and Government jargon, as well as committing to further updates. I suppose that it is good that we have alerted the Government to some of the issues in accident and emergency that were covered in the media this morning. To be honest, though, I feel that we have been a little bit fobbed off and kicked into the long grass. I seriously await a definition of myself, and I look forward to hearing more accident and emergency updates in three months' time; I hope that some clarity will be forthcoming at that point.

11:30

Colin Beattie: The area is very much work in progress and the committee has done good work in highlighting some of the issues that the national health service faces. To be fair to the NHS, it has picked up on those issues. Mary Scanlon mentioned specifically the definitions of self-referral and 999 emergency referrals. It is clear from what Paul Gray says that the question is one of consistent interpretation.

We have had that problem with data before. Consistently, over the years, there has been a problem in comparing data in different areas of the NHS. If some consistency and clarity are to be brought to that process, that is a good thing, and I can understand that it will take two or three months to get the changes in place.

The committee is doing its job by focusing on those things and by getting the NHS to focus on them. If we look at the conclusion to paper 3, the fourth bullet point in paragraph 7 might be the way to go. We can get a progress update and recommendations in the next Scottish Government progress report, which will be published in May 2015. That is a reasonable horizon.

Nigel Don: I am concerned that there is a risk that, as MSPs, we could end up looking at a lot of detail, which, although we might like that, would be more appropriate for another committee. There is a risk that we might start doing the Health and Sport Committee's job for it.

We have examined the issues and listed a range of points that need to be looked at. The Government has given us a substantial response to those points. My instinct, wearing my MSP-on-an-audit-committee hat, is that we should leave the Government to work the matter through, and we should ensure that we go back to it on a sensible timescale. If the Government has told us that it will give us certain things in three months, that is fine: let us have those. Otherwise, we should perhaps just refer the issue to the Health and Sport Committee, to the extent that it has not already picked the issue up, and see where that committee wants to go, rather than doing its job for it.

Tavish Scott: I was not going to say anything, but I so disagree with that. Given that the whole purpose of committees is to be consistent in their pursuit of evidence, and following Colin Beattie's very fair observations, we should look at the issue again. The Health and Sport Committee will not have a clue about the particular area that we have looked at. It will be looking at a lot of other things and that issue will be just one in a huge amalgamation of vast amounts of other information.

We should do the job that we are paid to do, which is to be consistent about what we look into, and take the three-month report—as Colin Beattie rightly said—so that we keep our eye on the issue, rather than dropping it as committees normally do.

Mary Scanlon: I appreciate that we have quite a few new members on the committee, but we have had excellent evidence sessions on accident and emergency in the past. Self-referral is a significant issue, given that there have been huge increases in self-referral, and everyone agreed that we need to understand it. Does that increase mean that people cannot get general practitioner appointments? Is something else not working? Why is there such a huge increase in accident and emergency cases?

In order to look forward—and I find the Government looking forward to seven-day working and so on, on which Hugh Henry asked a lot of questions—we need to understand why there has been a significant increase in self-referrals to accident and emergency before more resources are put in.

I am with Tavish Scott on this one: there is nothing here that we need to ignore. We are doing

our job correctly and the matter should not be referred back to the Health and Sport Committee, which has more than enough to do. Looking into self-referral is an important part of our work: it was an important part of the evidence sessions and it is a critical part of our audit, because it concerns a complete change in patient behaviour.

Colin Beattie: I understand the concern about micromanagement. It is not our job to micromanage the NHS, but we have a constructive job to do in pointing out anomalies and in working with the NHS to highlight the issues and help it to take matters forward. Sometimes, it needs a wee bit of focus brought from an external party such as the committee to ensure that that happens, and I think that it is responding. Some of the stuff that is coming back from Paul Gray is fairly positive. Yes, there is civil service jargon in there, but the NHS is moving in the right direction and we have a responsibility to ensure that it keeps doing so.

Drew Smith: As a new member of the committee, I am happy to go with the wisdom of members who have followed the issue for longer. I agree that we should proceed in the way that Colin Beattie said, according to bullet point four of paper 3, which suggests that we take a progress report in May.

The Convener: Okay. We will return to the issue in May, after the Scottish Government's progress report is published, and we will seek an update on the committee's recommendations. Is that agreed?

Members indicated agreement.

“NHS in Scotland 2013/14”

The Convener: We move to agenda item 5. We have a written submission from the Scottish Government on the Auditor General for Scotland's report “NHS in Scotland 2013/14”. Members will recall that, at our meeting on 14 January, we took oral evidence from the Scottish Government on the report and agreed to note the evidence and the report. Having considered the Government's response, and given that the AGS will report again on NHS performance at the end of the year, I am minded to note the report. What are colleagues' views on that?

Tavish Scott: That is perfectly fair. However, through you, convener, I might ask the Auditor General and Audit Scotland about consistency. Under the previous item, Colin Beattie made a point about consistency of data and, halfway down the front page of paper 4, which is the Government's response, we read:

“For simplicity, we have decided that as from April 2015 we will use the term LDP Standards”—

whatever the heck that means—

“to replace HEAT targets and HEAT standards.”

Where is the consistency there? The response goes on to say:

“The former HEAT targets on delayed discharge ... will be covered in the new Integration Indicators”.

That does not say that they will be the same; it says that they will be “covered”.

Convener, you will remember that we used to criticise the Tories for changing the way in which they counted unemployment in the 1980s. This looks like the Government doing exactly that again. It is changing the way in which something is counted and expecting us to follow it. Perhaps you can ask Audit Scotland to stop the Government changing the way in which it counts things, which means that parliamentarians and others cannot keep an eye on what is going on.

Mary Scanlon: I think that, in one of our previous evidence sessions, I established that a standard is a HEAT target that has not been met.

I am content to note the report, but I want to raise two points. First, I am not entirely sure whether the constant referral to a legal requirement comes under the responsibility of Audit Scotland. There is an assumption that there is a legal requirement, yet the patient can do nothing. There is no law that a patient must be given treatment within a certain time, and there is no sanction against a health board if the “legal requirement” has not been met. I would like a bit of clarity on that, although I am not sure that it is Audit Scotland’s responsibility.

Secondly, in recent days, there has been quite a lot in the news about health boards, for obvious reasons. I get a bit fed up with hearing that the solution to delayed discharge—which is also known as bed blocking—and most of the other problems is the integration of health and social care. We have had integration of health and social care in Highland for two years, and NHS Highland has just as many problems as any other health board in Scotland. I say that in the presence of the Auditor General, who is now in the public gallery, because I hope that she will look at the success that we have already had through the integration of health and social care to see whether it really is a panacea to solve all the problems in the future. As a representative of the NHS Highland area, I do not think that it is.

Colin Beattie: I am happy to note the report. However, on the issue of HEAT targets and HEAT standards versus LDP standards, I think that it was this committee that triggered the change by pointing out the confusion arising out of the two figures, although we did not suggest the name. I am not sure what LDP stands for, to be honest.

The Convener: I am told that it stands for local delivery plan.

Colin Beattie: I think that it is our fault.

The Convener: Are colleagues content to note the report?

Members *indicated agreement.*

11:40

Meeting continued in private until 12:16.

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