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Rural Economy and Connectivity Committee

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Rural Economy and Connectivity Committee

Remit: To consider and report on matters falling within the responsibility of the Cabinet Secretary for Rural Economy and Connectivity.



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Executive Summary

1. The Scottish Government's draft budget 2017 -18 was published on 15 December 2016, significantly later than in previous years. The Committee acknowledges that the late publication was due to the timing of the UK Government Autumn Statement. However, the Committee believes this created an unrealistic timetable, which severely undermined its ability to conduct scrutiny of sufficient depth and quality.
2. The Committee considers it essential that the opportunity is taken by the Budget Process Review Group to examine how the scrutiny of the draft budget can be made more robust and effective.
3. The following is a summary of the key conclusions and recommendations made by the Committee.

Forestry

4. Whilst the level of forestry planting in 2016-17 will again be below the Scottish Government's annual target, the Committee welcomes the Scottish Government's work to stimulate application rates and the increase in the Woodland Grants budget to £40m in 2017-18. It calls on the Scottish Government to ensure that funds are made available so that all possible progress is made towards meeting the 2022 planting targets.
5. The Committee urges the Scottish Government to provide as much certainty as possible regarding future funding programmes for forestry post-Brexit.
6. The Committee supports the view that forestry assets should not be sold off without the purchase of additional land for productive planting to offset the potential loss to the National Forest Estate. It also notes the importance of recycling income generated directly back into the Forestry Commission.
7. The Committee requires further detail from the Scottish Government on the funding available to effectively deal, both proactively and reactively, with any potential threats to Scottish Forestry posed by pests or diseases which may arise.

Broadband and digital connectivity

8. The Committee welcomes the Scottish Government's ambitious target to make superfast broadband available across the whole of Scotland by 2021.
9. The Committee urges the Scottish Government to do everything in its power to ensure that funding and policy interventions result in all areas of Scotland,

- including remote rural, rural urban and other areas viewed as being non – commercially viable, have access to broadband services.
10. The Committee calls on the Scottish Government to accompany the publication of its Reaching 100% (R100) project with an early, clear and realistic announcement as to how, and by whom, the strategy will be fully funded.
 11. The Committee looks forward to hearing details of the role Community Broadband Scotland will play in delivering the Scottish Government's R100 project and how the project will ensure that communities that cannot provide solutions themselves will be provided with access to broadband.
 12. The Committee notes the prospect for increased competition between internet service providers. It hopes that this will make broadband access in rural areas more affordable and accessible for rural communities, although it remains unconvinced that it will deal entirely with market failure.
 13. The Committee also calls for early clarity on the share of the additional funding for digital communications announced as part of the UK Government's Autumn Budget Statement that will be allocated to Scotland.
 14. As part of the upcoming refresh of Scotland's digital strategy the Committee calls for the provision of information on all broadband infrastructure delivery proposals, which is accurate, comprehensive, accessible and easily searchable by the public.
 15. The Committee expects to hear how the UK and Scottish Government propose to address gaps in mobile coverage. It is pleased that the Scottish Government has agreed to work with the UK Government to support a trial of 5G mobile technology in a rural area of Scotland.

Common Agricultural Policy (CAP) payments

16. The Committee requests further information from the Scottish Government as to why there were such significant increases in depreciation charges arising from the CAP Futures IT system in recent years. The Committee also calls for further clarity on the nature of the corporate recharges of £8m that are set out in the draft budget.
17. The Committee is of the view that the Scottish Government must, as a priority, take all possible action to ensure that there is no requirement for a further round of Basic Payment Support loans in 2017-18.

Active travel

18. The Committee calls on the Scottish Government to set out how it can increase funding for active travel in order to make tangible progress towards meeting its stated targets.

Rail fares

19. The Committee welcomes the initiative by the Scottish Government which will provide a week's free travel for some regular rail travellers in Scotland but calls for further clarity on how it will be funded.

Ferries

20. The Committee recognises the vital connection that ferries provide to our island communities. It welcomes the 11.6% increase in funding made available for the continuance and improvement of services.

Concessionary Travel Scheme

21. The Committee notes the Scottish Government's assurance that the proposed budget reduction will have no impact on current entitlement. However, it calls for further clarity on whether this cut will have any consequential impact on bus services and ticket prices for the general public.

Prestwick Airport

22. The Committee is concerned that the cumulative level of loan funding for Prestwick Airport could approach £40m by 2018. It intends to invite the Scottish Government to a future evidence session to provide further information on issues pertaining to the financial management of the airport.

Introduction

1. In this report the Committee sets out its findings and recommendations on those aspects of the Scottish Government's [Draft Budget 2017-18](#) which relate to its remit. Chapter 11 of the draft budget contains proposed spending figures for the Rural Economy and Connectivity portfolio. This includes proposed spending plans for agriculture, rural development, food and drink, fisheries grants, forestry, digital connectivity and transport.

Oral evidence

2. The Committee acknowledged that the timetable for the Draft Budget 2017-18 meant that it was highly unlikely that there would be an opportunity to take oral evidence from stakeholders following its publication. It therefore agreed to hold pre-introduction evidence sessions to hear from stakeholders with an interest in forestry and broadband respectively. These sessions, held on 23 and 30 November 2016, provided an opportunity for members to explore with witnesses whether, in their view, the Scottish Government is on track to meet its targets and obligations in these areas; whether previous funding has been sufficient to help achieve these; and what future levels of funding might be required.
3. The Committee subsequently heard from Fergus Ewing MSP, the Cabinet Secretary for the Rural Economy and Connectivity, on 21 December 2016, following the publication of the draft budget documents. In addition to questioning the Cabinet Secretary on the evidence received on forestry and broadband, the Committee took the opportunity to explore with him a range of other portfolio issues based on figures contained in the published budget documents. These included Common Agricultural Payments, ferries, active travel, rail fares and Prestwick airport.

Written evidence

4. The Committee received 21 responses to its call for written evidence. Of these responses, 5 were in relation to forestry, 15 were on broadband and one on active travel. Details of the submissions can be found in Annex B.

Timing of the budget publication

5. The Draft Budget 2017 -18 was published on the afternoon of 15 December 2016. This was significantly later than in previous years, with publication delayed as a consequence of the timing of the UK Government's Autumn Statement. The deadline of 13 January 2017 for the Committee to report to the Finance Committee remained unchanged.

6. The Committee made every effort to accommodate this extremely tight timeframe. In reality, this left only a few days following the publication of the draft budget for members to digest and understand the documents; for clerks and SPICe officials to prepare briefing and for the Committee to conduct an evidence session with the Cabinet Secretary. In addition, the time available for the preparation of a draft report and its subsequent agreement by the Committee was severely constrained.
7. It should be noted that no submissions from stakeholders were received following the publication of the draft budget on 15 December. The very short period of only four working days between the publication of the draft budget documents and the evidence session with the Cabinet Secretary meant that there was virtually no opportunity for stakeholders to formulate and submit their views to the Committee.
8. The timing of the budget has also meant that issues which would usually be included in consideration, such as the impact of budget proposals on the climate change agenda, have not been fully deliberated due to the lack of time available.

9. The Committee acknowledges that the late publication of the Draft Budget 2017-18 was due to the timing of the UK Government Autumn Statement.
10. However, the Committee believes that the timing of the publication of the Scottish draft budget in mid-December created a timescale which was unrealistic, particularly given that the timeline for the passage of the budget bill was not extended. This severely undermined the ability of the Committee to conduct scrutiny of sufficient depth and quality.
11. The Committee is also concerned that, despite its best efforts to include the views of stakeholders on forestry and broadband, the timescale did not allow witnesses to give evidence based on the actual budget figures. The opportunity for stakeholders to submit written evidence following the publication of the budget documents was severely constrained to only a few working days. This timetable provided virtually no opportunity for public engagement in the scrutiny of the documents and therefore impinged on the ability of the Committee to hold the Scottish Government to account.
12. The Committee notes that the Finance and Constitution Committee has constituted a Budget Process Review Group to “carry out a fundamental review of the Scottish Parliament’s budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016”. It considers it essential that the opportunity is taken as part of this review to examine how the scrutiny of the draft budget by subject committees can be made more robust and effective, particularly if severely constrained timetables similar to that for the 2017-18 process will require to be followed in future years.

Usefulness of the pre-publication budget material

13. On 21 October 2016 the Cabinet Secretary for Finance and Constitution [wrote](#) to the Convener of the Finance Committee outlining the availability of a range of pre-publication budget information.
14. The Committee acknowledges the Scottish Government's positive intention to provide information to assist committees in taking forward budget scrutiny in light of the challenges presented by this year's budget timetable. However, from a practical perspective, this material was of limited use to the Committee.

Evidence

Forestry

15. A report on the [Economic Contribution of Forestry in Scotland](#)¹ found that the sector contributed nearly £1bn to the economy in 2012/13 (an increase of around 30% on 2008 figures), with approximately 80% of this figure attributed to forestry and timber processing, and the remaining 20% to recreation and tourism. Employment levels have also increased with over 25,000 full time equivalent staff now working in the sector.
16. The draft Forestry Commission budget for 2017-18 is £61.3m. However, despite this positive contribution to the rural economy, the Committee notes that the Forestry Commission budget is scheduled to fall in real terms from £61.1m in 2016-17 to £60.4m in 2017-18.
17. During the Committee's pre-introduction examination of the forestry budget, three significant issues emerged: the limited progress being made in increasing forestry planting rates, the performance of the Scottish Government re-positioning programme and tree health. The Committee is aware that the issues of tree health and planting rates were also areas of concern in the previous session for the Rural Affairs, Climate Change and Environment Committee.

Forestry planting targets

18. The Scottish Government has a target to plant 100,000 hectares of new woodlands between 2012 and 2022, which equates to 10,000 hectares per year. The Committee received evidence which suggested that this planting target is not being met, and the annual planting rate is falling.
19. The Committee questioned stakeholders on whether Forestry Commission Scotland will be in a position to facilitate the delivery of this target in the face of real-terms budget cuts. Stuart Goodall from Confor explained to the Committee that the projected budget for the Forestry Grant Scheme in 2016-17 is £36m. However, taking into account the average rate of grant, Confor has calculated that

it would require funding of £45m per annum if the 10,000 hectare a year target is to be achieved. He said —

” It is quite clear that, if the Forestry Commission is going to deliver the objectives that the Scottish Government has set, the budget will be insufficient.²

20. Rodney Shearer from Alba Trees also expressed concern about the proposed budget for the Forestry Grant Scheme. He said—

” The biggest problem that the Forestry Commission has right now is that 5,900 hectares has been approved, which has taken £27mn of the money. There is absolutely no way that the budget will get up to 10,000 hectares.³

21. It was further noted by the witness panel that if the Scottish Government wishes to meet its 2022 target then 13,000 hectares a year will need to be planted in Scotland to make up the shortfall. This is estimated by Confor to require an overall budget of £59m.

22. The inability to meet planting targets due to lack of funds was also raised by Tihill Forestry. It suggested in written evidence that, whilst demand in the application process for 2016/17 may exceed 10,000 hectares for the first time, funding may not be sufficient to meet that demand. It said—

” It will be very disappointing and a very poor message to applicants if this demand, which we and many others have battled to achieve, is not funded by SG.⁴

23. Jon Hollingdale from the Community Woodlands Association noted that the structure of the forestry grant, which requires that work be done up front before the grant is paid, may discourage some landowners from making the investment in forestry. Tihill Forestry and BSW Sawmills Ltd also raised concerns about the speed and effectiveness of the grant approvals process.

24. The Scottish Government stated in the draft budget that it is bringing forward plans to stimulate increased rates of new woodland creation, and the long-term sustainable production of home-grown timber. To aid this it has increased the budget from £36m in 2016-17 to £40m in 2017-18. The Committee also notes that, following an independent report, recommendations have subsequently been accepted by the Scottish Government to improve the grant system⁵.

25. Jo O'Hara from the Forestry Commission acknowledged that previously the Scottish Rural Development Programme (SRDP) grants were not attractive enough to bring forward land for new planting. She outlined how the Scottish Government has restructured the grant system and enhanced the approvals process to improve the situation. In her view, these changes would encourage applications which would result in approvals for 8,000 – 8,500 hectares of new planting in the coming year.

26. However, she also noted that the £36m available in the budget in 2016-17 was being provided to meet this anticipated level of demand for new planting, as opposed to meeting the 10,000 hectare target. She said—

” The figure that is in the budget was produced by anticipating demand, as we do every year. If demand is not there, we cannot pay out money.⁶

27. The Cabinet Secretary also voiced his commitment to increasing tree planting and noted that a recent WWF report suggested that, if this is not achieved, the UK could be importing 80% of its timber requirements by 2050.
28. Based on the limited progress which has been made to date, the Committee has concerns about the ability of the Scottish Government to meet its 2022 planting targets. It recognises that this is an on-going issue that has been raised in previous years by its predecessor committee as part of its budget scrutiny. It notes that the proposed level of spend on Forestry Grant Schemes of £36m is based on anticipated levels of grant applications which will lead to likely approvals of around 8,500-9,500 hectares of planting in 2016-17.

29. Whilst this year's level of planting will again be below the Scottish Government's annual target, the Committee notes that it represents an increase on the low levels of grant uptake in recent years. It welcomes the Scottish Government's work to stimulate increased rates of applications, accompanied by an increase in the Woodland Grants budget to £40m in 2017-18. Given the benefits that new woodland creation brings to the rural economy and the contribution it can make to the climate change agenda, the Committee calls on the Scottish Government to continue its efforts to encourage an increase in applications and recommends that these be treated as a priority. It further calls on the Scottish Government to ensure that funds are made available to meet increased application levels and thus ensure that all possible progress is made towards meeting the 2022 planting targets.
30. The Committee acknowledges the fact that if planting rates do not increase significantly the UK could be importing 80% of its timber by 2050. In light of this concerning prediction it welcomes the commitment and action taken by the Scottish Government to reconfigure and improve the grant approvals process to make it more attractive to new planting. The Committee will closely monitor progress in this area.

Brexit, future funding and the Scottish Rural Development Programme (SRDP)

31. The SRDP delivers Pillar 2 of the EU Common Agricultural Policy (CAP). It funds economic, environmental and social measures for the benefit of rural Scotland, including the Forest Grant Scheme.

32. In addition to the issues raised regarding planting targets it was suggested that the cycle of funding from CAP, which is naturally geared towards agriculture, is not best suited to the forestry sector. Confor outlined in its written evidence that activity around new woodland creation is constrained at the start of every SRDP programme and it only increases once certainty of grant funding is confirmed. It said—

” Continuity of funding is vitally important. We have suffered too long from the farming based 7-year cycle of CAP which is unsuitable for forestry.⁷

33. Witnesses across the board highlighted the critical importance of continuity of funding and called for more recognition of the long term nature of forestry investment. It was suggested that this was particularly relevant in relation to the development of policies which would apply following the UK's departure from the EU. Scottish Land and Estates outlined in written evidence that—

” Going forward continuity of funding is important and recognition of the long-term cycles that forestry works to must be given in the development of a post-Brexit policy and funding framework. The detrimental impact of the CAP/SRDP 7-year cycle on planting is clearly evidenced.⁸

34. The Committee acknowledges that the Scottish Government has committed to passing on, in full, the guarantees for committed EU Pillar 2 funds offered by the UK Government. However, it was noted in written evidence that the length of time taken to establish new woodland creation schemes may mean that a greater number are put on hold when approaching the date identified for the UK's EU departure for fear that they may not make it to approval stage in time.
35. The Committee also noted that although the Forestry Commission expressed confidence in the increased levels of application for new schemes, it felt unable to comment on whether it would meet the 2022 target due to the wider impact of CAP, Brexit and land use decisions which cannot be predicted.

36. The Committee recognises that the UK's departure from the EU will necessitate a period of negotiation and transition. However, it would urge the Scottish Government to provide as much certainty as possible regarding future funding programmes post-Brexit in order to allow forward planning in the forestry sector, given its importance to Scotland's rural economy.

37. The Committee also recognises that changes in the policy and fiscal landscape as a consequence of Brexit may provide opportunities for the development of the forestry industry in Scotland. For example, it recommends that the Scottish Government consider whether future arrangements might allow perceived anomalies to be addressed, such as the current misalignment between SRDP grants and the seven year CAP funding cycle.

Timber transport scheme

38. The Scottish Strategic Timber Transport Scheme finances projects that facilitate the sustainable transport of timber in rural areas of Scotland and maximise the value of monies available through regional and national strategic projects and partnerships. The Cabinet Secretary confirmed the continuation of support to the Scheme. He said the Scottish Government would further assist the timber transport fund because—

” ...part of the problem is that assets are stranded—they are inaccessible. Because of the remote location of forests and because of transport problems, in some cases it is difficult to harvest mature forest, so the timber transport fund is being maintained.⁹

39. The Committee recognises the vital importance of safe, efficient and sustainable transport infrastructure in order to facilitate the movement of timber assets, whether that is by road, ship or rail freight. It would, in particular, encourage further work to improve those routes within Scotland’s existing rural road infrastructure that are used by the forestry sector. The Committee also welcomes the continued financial support offered to rural businesses and communities through the Strategic Timber Transport Scheme.

Sales and acquisition of Forestry Commission Scotland (FCS) assets

40. Forest Enterprise Scotland is part of FCS and is tasked with managing the Scottish National Forest Estate. There are fluctuations in the extent of the National Forest Estate resulting from disposals and acquisitions of land undertaken as part of FCS’s [re-positioning programme](#). This programme seeks to enable FCS to ensure that the land forming the National Forest Estate is suited to achieving the objectives of the [Scottish Forestry Strategy](#). Between 1999 and 2016, the re-positioning programme yielded a net profit of £59.3m.¹⁰
41. At the Committee’s meeting on 23 November 2016, stakeholders were asked for their views on the repositioning programme. Some concern was expressed that sales of productive forest could mean that these forests were then “lost”. Stuart Goodall of Confor said—

” We are nervous that if we go down a repositioning programme route and sell productive forests that are then lost—cleared and not managed—it will mean that we will drain the supply of wood available.¹¹

42. Scottish Land and Estates supported Confor’s position in written evidence, noting that there must be a presumption against woodland removal without appropriate compensatory planting. In written evidence, BSW Sawmills Ltd set out its view that the selling of productive forest and using income generated to mostly create non-

productive woodland in and around town may put the medium to long term supply of timber in jeopardy.

43. The importance of community benefit being derived from the land and the options for community buy outs were highlighted. It was noted by Jon Hollingdale of the Community Woodlands Association that sales to community groups require an appropriate forestry management plan. However, this was not the case for private sector buyers.
44. Responding to questioning by the Committee, Forest Enterprise Scotland confirmed that all repositioning sales receipts to date have been reinvested in the national forest estate. He said—

“...the situation is that the receipts from the repositioning sales have been reinvested into woodland creation on the estate, our urban regeneration work—for example, in the central belt and Glasgow—promoting agricultural integration and starter farms, and acquisitions that help us to deliver ecosystem benefits at a landscape scale on the national forest estate¹²

45. The Committee supports the view that forest land assets should not be sold off without the purchase of additional land for productive planting to offset the potential loss to the National Forest Estate. It also notes the importance of recycling income generated from asset sales directly back into the Forestry Commission.
46. The Committee recommends that the Scottish Government should include the requirement for an appropriate forestry management plan as part of all productive forest estate land sales in order to ensure that the timber supply is maintained once land is sold. This will have a beneficial impact on the functioning of the rural economy.

Diversification from farming to forestry

47. The Committee is aware that historically there has been a perceived conflict between farming and forestry sectors.
48. The Committee noted that the forestry industry is working to try to dispel negative perceptions about forestry creation and to encourage farmers to see the economic benefits of forestry. The representative from Confor noted that once land is planted it does not meet the criteria for farming subsidy. This would therefore represent a saving to the public purse. In addition he noted that—

“If you plant a marginal sheep farming area, you will deliver four times as much income to the landowner and twice as much money into the local economy as you will from marginal sheep farming. You will also provide more jobs.”¹³

49. However, Willie McGhee of the Forest Policy Group raised the issue of tenant farmers and the need for clarification on who will receive the profit from tree planting – the tenant or the landlord.
50. Jo O'Hara from the Forestry Commission commented that the best outcome comes from an integrated use of land—

” That is the work that we are doing with both the farming and the forestry sectors, to see whether we can make best use of the land—be that trees, sheep, cattle or whatever—in order to deliver the best for Scotland and the best return for the public purse.¹⁴

51. The Committee acknowledges and supports the work done by the FCS and the forestry industry to create a culture change and bring forestry and agricultural sectors closer together for the benefit of the rural economy.
52. The Committee seeks further clarification from the Scottish Government regarding the position of tenant farmers in relation to grants for tree planting and who would be the beneficiary of any profit from the harvest of the trees.

Planning for pests and diseases

53. In its report on the Draft Budget 2015-16, the Rural Affairs, Climate Change and Environment (RACE) Committee highlighted tree health as an area of concern. RACE Members questioned whether adequate funds were available to tackle the serious issues facing tree stocks.
54. Tilhill Forestry stated in written evidence that “pests and diseases are unquestionably the biggest threat facing forests in Scotland”. It noted that globalisation provided mechanisms for pests and diseases to be rapidly transported around the world. It called for—

” ...constant vigilism and effective controls to both prevent entry into Britain and to deal rapidly with any outbreaks that do occur before the opportunity is lost. This requires adequate funding and effective cooperation with England and Wales.¹⁵

55. Jon Hollingdale from the Community Woodlands Association said that in his view the budget for pest and disease control is currently sufficient. However, no one knows when the next big disease will strike or what species it will effect.
56. Scottish Land and Estates noted that the SRDP provided funding for commercial forestry owners to help deal with attacks from pests and diseases. However, many owners of amenity woodlands do not receive the same support and can be faced with large bills when they receive no income from the forest on their land. It said—

” Consideration should perhaps be given to the variety of situations that tree health challenges occurs in and tailor support as appropriate.¹⁶

57. The Committee requires further detail from the Scottish Government on the funding available to effectively deal, both proactively and reactively, to any potential threats to Scottish Forestry posed by pests or diseases which may arise.
58. The Committee calls on the Scottish Government to consider what support and resources might be made available to amenity woodland owners to assist in dealing with pests and diseases which might spread to productive timber forests.

Broadband and digital connectivity

59. The Digital Strategy budget, as set out in the Draft Budget 2017-18, states that the Scottish Government will:
 - deliver the final phase of the Digital Scotland Superfast Broadband (DSSB) programme, which will extend fibre broadband access to at least 95% of premises across Scotland;
 - launch the first phase of the Reaching 100% (R100) programme, which over time will deliver the commitment to extend superfast broadband access to all of Scotland by 2021; and
 - deliver the initial stages of a programme, developed and delivered in conjunction with industry, to address gaps in 4G mobile coverage.
60. In the 2016-17 budget, £116.8m was made available for digital connectivity. This has increased by £19.2m to £136m in the Draft Budget 2017-18. In order to meet the goals detailed above the Scottish Government has announced that it will launch a new procurement process to deliver its Reaching 100 per cent programme, as well as a refreshed Digital Strategy in early 2017.

Poor connectivity in rural and remote areas

61. The Committee acknowledges and welcomes the very real progress being made by the DSSB programme in supporting the extension of broadband infrastructure across Scotland. However, it recognises the significant challenges that those living in many rural and remote areas still face when trying to access broadband or mobile services.
62. Through written and oral evidence the Committee has heard that many people live with either an inadequate or total lack of service and are regularly frustrated and left increasingly isolated by the lack of digital connectivity in some areas. This can negatively impact on equality of opportunity, as well as on education, social and

family connections. Poor connectivity can also impact on the ability of affected areas to attract inward investment. Blair Atholl and Struan Community Council said—

” Simple tasks such as upgrading the operating system of a mobile phone can require a ninety mile round trip to Perth.¹⁷

63. The Committee also recognises that the requirement for everyone in Scotland to have access to high quality, reliable broadband and mobile services will grow in the coming years. People now have multiple devices which require internet connectivity and the ways in which we use the internet require greater levels of speed. In written evidence, Blair Atholl and Struan Community Council highlighted that many digital functions taken for granted by those with access to high quality broadband connections were simply unavailable to those in many rural and remote communities—

” ... data streaming belongs in dreamland¹⁸

64. The Committee also heard that even though many people live close to large businesses, power lines or roads which are connected to services they are still unable to gain acceptable internet access. Alvah and Forglen Community Council said that access to broadband is essential, not only for modern day living but to support a thriving rural economy—

” Effective broadband is no longer a luxury. It is a necessity and all parts of the country should have equitable access to the service if all parts of the country are to have fair competitive opportunity to grow their economy.¹⁹

65. In relation to the provision of fibre optic cable to new build developments Professor Fourman of the Royal Society of Edinburgh said—

” We require sewerage, we require water and we require electricity: we should also require fibre.²⁰

66. The Committee also heard how access to broadband can come at an increased cost in rural areas. For example, Wendy Graham noted in her written evidence that she pays £66 for a basic phone package and satellite broadband compared to the £39.99 which would be payable for standard broadband in urban areas.
67. The Cabinet Secretary reiterated the Scottish Government’s ongoing commitment to improving digital connectivity and increasing the provision of broadband in rural areas. He said that the current investment, and the amount proposed in the draft budget, will extend fibre access to at least 95% of premises across Scotland by the end of 2017 and that 679,000 premises had already been connected, with 90 per cent receiving super-fast broadband speeds. He noted that this would not have been the case without Scottish Government investment in the two broadband contracts—

” Had it not been for the contract—this is an important point—planned commercial coverage would have reached only 66%.²¹

Impact on rural communities and the rural economy

68. The Committee recognises that having effective, speedy access to the internet is of far greater significance to our rural communities than simply allowing individuals to access their emails. It fundamentally impacts the local economy. As the Royal Highland and Agricultural Society of Scotland succinctly stated—

” Easy access to technology leads to innovation which in turn leads to jobs.²²

69. However, the Committee heard in evidence that much will depend on getting the right infrastructure investment in place. Stuart Robertson of HIE advocated the creation of fibre infrastructure in more remote rural areas as a foundation for future solutions, particularly for our island communities. He said—

” That infrastructure may well be costly relative to the population of the islands, but we need to look at investment not just in terms of the number of broadband connections. We need also to think about delivery of public services and about stemming depopulation. We need to think in the widest terms about the investment. It might well be a large amount of money, but it is potentially money very well spent.²³

70. The Committee is also aware of the necessity of accessing digital public services. For example, HMRC increasingly expect tax returns to be done online. However, according to Stuart Mackinnon from the Federation of Small Businesses, without reliable internet services, businesses in rural areas are forced to use telephone or face to face services, which increases both costs and pressure on government resources.

71. The Committee welcomes the increase of 21.6% (£19.9m) in the Connectivity Capital budget, whilst recognising that this funding will be focused in the main on achieving the 95% target under the DSSB programme. Level 4 budget figures state that the Capital Connectivity budget—

” ...will support the development of world class digital infrastructure with a particular focus on meeting our contractual commitments to accelerating the roll out of next generation broadband in rural areas.²⁴

72. The Committee acknowledges that without the intervention of the UK and Scottish Governments, the provision of broadband through commercial providers would be substantially lower.

73. The Committee views access to high quality broadband as an essential utility, not a luxury, for all regions across Scotland. It can be a means to connect to essential public services, run businesses and potentially stave off

depopulation in our rural communities. The Committee has concerns that pockets of exclusion still remain and that broadband access in remote areas can cost considerably more than in urban areas. It calls on the Scottish Government to consider and provide details of how it intends to address this issue within its refreshed digital strategy.

74. The Committee recognises the Scottish Government's continuing efforts to improve connectivity and welcomes its ambitious target to make superfast broadband available across the whole of Scotland by 2021. However, there is no indication in the draft budget as to how much funding will be required in order to meet this target.

Inequality of access and opportunity

75. The Committee explored how decisions are made by commercial infrastructure providers in identifying locations for future investment. It raised the concern that further investment may be made in urban areas, which already have a good connection, rather than in rural locations which are in more pressing need. It was noted in written evidence from Dick Barbour-Might that the current situation is profoundly unfair and makes it more difficult to secure livelihoods and for rural economies to flourish. He said—

” I would argue that it should be a priority for the Scottish Government to ensure good broadband provision everywhere before upgrading already good services to larger population centres.²⁵

76. The Cabinet Secretary noted that the UK Government has control over regulation in this policy area. He informed the Committee that he has written to UK ministers to advocate that it requires contractors to do more to prioritise rural and island areas; in particular when considering 5G mobile spectrum options.
77. Colin Cook from the Scottish Government observed that commercial companies are more likely to prioritise urban premises. To compensate for this he noted that from the perspective of the Scottish Government —

” ...the balance and the timing of Government investment are likely to be skewed to rural first—if I can put it like that—in a procurement strategy.²⁶

78. The Committee believe it is critical that we address the inequality of access and opportunity which is currently present in Scotland in relation to broadband and digital connectivity more generally. While recognising that some aspects are in the hands of the UK Government, the Committee would urge the Scottish Government to do everything in its power to ensure that funding and policy interventions result in all areas of Scotland, including remote rural, rural urban and other areas viewed as being non – commercially viable, having access to broadband services.

79. It believes that prioritising these areas will have a positive knock-on impact in terms of potential savings for others areas within the wider Scottish Government budget.

Public and private investment in broadband infrastructure

80. As noted above, the Scottish Government has an ambition to develop a world-class, future-proofed infrastructure that will deliver digital connectivity across the whole of Scotland.
81. The Cabinet Secretary noted that neither the UK nor Scottish Government is the default provider of broadband but rather it is the commercial operators. He said—
- ” They install the broadband—or one particular company does—and then they make money by supplying customers with broadband. Let us not forget that there is a commercial driver—the taxpayer is not the default provider for the installation of utilities.”²⁷
82. BT argued in written evidence that that the ability to provide services at speed in rural areas is not a technological issue but an economic one. It stated that—
- ” ...a fundamental feature of telecoms networks is that it is more expensive to deploy networks to customers that are geographically dispersed than to customers that are densely located.”²⁸
83. This makes the provision of high speed broadband in rural areas commercially challenging and raises the question of whether it is financially worthwhile to providers. BT said-
- ” ..at some point the costs will exceed the likely revenues and the commercial case for deployment will fail.”²⁹
84. In written evidence, Loch Rannoch Highland Club highlighted an example of indicative costs to improve the broadband service to their venue—
- ” A recent survey by BT to supply an improved service would cost in excess of £200,000 plus the cost of cable laying at £140 per metre. Assuming this latter cost was to the nearest exchange, this would come to a total in excess of £380,000.”³⁰
85. BT advocate a gap funding model which seeks to enable other beneficiaries to also contribute in order to deliver benefits to communities and the economic growth of Scotland as a whole.
86. The Committee asked what proportion of next year’s budget provides funding for the two existing Government contracts with BT under the DSSB programme to

extend fibre broadband access to 95% of premises. The Cabinet Secretary noted that up to £21m will be used to deliver the final phase of the £400m programme.

87. The Committee questioned witnesses about the further funding which might be required to meet the Scottish Government's target of extending superfast broadband to the whole of Scotland by 2021. Witnesses generally felt unable to give an exact figure. However, Stuart Robertson from HIE estimated a possible figure for the Highlands and Islands region, based on what was required to deliver the DSSB programme objectives. He said—

” Going forward, it is reasonable to think that we will still need £200 million to £300m, given that we are now seeking to get to 100 per cent coverage as opposed to 90 per cent. The target last time was to connect people to the infrastructure; this time it is superfast speeds for everyone.³¹

88. The Scottish Government responded to questioning on the potential costs of providing access to 100% of properties in Scotland by 2021. It emphasised that a key factor in setting out an effective procurement strategy, and determining the future funding required in order to reach the 100% target, would be the outcomes of the on-going 'Open Market Review' being conducted by the Scottish Government. This will provide a snapshot of commercial plans for provision of broadband services across Scotland by broadband infrastructure providers.

89. The Committee awaits the future publication of the refreshed Scottish Government Digital Strategy in the coming months with interest. It fully supports the Scottish Government's ambition to make high speed broadband services available across the whole of Scotland by 2021. Whilst, it does not underestimate the challenges and cost implications of reaching the most difficult to connect properties, it considers it essential to Scotland's economy - and the rural economy in particular - that this ambition is realised.

90. The Committee therefore calls on the Scottish Government to accompany the publication of its Reaching 100 per cent programme with an early, clear and realistic announcement as to how, and by whom, the strategy will be fully funded and how it plans to work with commercial providers to achieve its goals. The Committee will closely monitor the implementation of the strategy as it develops.

Community Broadband Scotland (CBS)

91. Community Broadband Scotland (CBS) is a Scottish Government initiative led by Highlands and Islands Enterprise. It offers financial support and guidance to communities in the areas least likely to benefit from the Digital Scotland Superfast Broadband rollouts. CBS is funded through both core Scottish Government funds and the Scottish Rural Development Programme (SRDP). Colin Cook from the

Scottish Government noted that CBS currently has a £1m budget from the Scottish Government and access to £9m of SRDP funding.

92. The Committee heard about positive examples of community broadband projects which could be replicated in other areas. However, a note of caution was also raised regarding the sustainability of such projects as they are dependent on volunteers and in the face of potential incoming competition from larger providers. In written evidence Bob Cornish said—

” In most cases the skills, knowledge, and capability to oversee a long-term sustainable broadband service are generally beyond community volunteers.³²

93. The Committee is aware that the future role of CBS will be considered as part of the Reaching 100% project, but that CBS will continue to support those communities that it is currently working with. Zoe Laird from CBS said community broadband options may be part of the longer term solution. However, it “should not be people’s only choice of how to get broadband.” Stuart Robertson from Highlands and Islands Enterprise echoed this point when he said—

” We want as many people as possible to be part of the mass market, so that the service that they get, the prices that they are offered and the range of choice that they have are as close as possible to what is available in urban areas.³³

94. The Committee recognises the good work done by Community Broadband Scotland in supporting community broadband projects in some of the most challenging and remote areas of Scotland. The Committee notes that there is no specific line attributed to CBS in the 2017-18 budget. It looks forward to hearing details of the role CBS will play in delivering the Scottish Government’s Reaching 100% project.

95. In order to ensure continuing value for money from the existing Scottish Government investment the Committee would encourage CBS to prioritise capacity building within communities to make projects as self-sustaining as possible.

96. The Committee notes that CBS support to date has been dependent on communities in areas that are not viewed as commercially viable being active in seeking and identifying solutions to the delivery of broadband in their areas. It therefore calls on the Scottish Government to make clear how its Reaching 100% project will remove such requirements and ensure that all communities will be provided with access to broadband services.

Coordination with UK Government

97. The Committee voiced a concern about the complexity of funding arrangements and targets across the UK and raised the question about how funding from the UK Government would be joined up with Scottish Government spending.
98. In the [autumn budget statement](#), made on 23 November 2016, the Chancellor of the Exchequer announced one of the four target areas of the National Productivity Investment Fund (NPIF) would be digital communications. The UK Government plans to invest over £1bn by 2020-21, including £740m through the NPIF, targeted at supporting the market to roll out full-fibre connections and future 5G communications. This will include the £400m Digital Infrastructure Investment Fund as well as a new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017.
99. When asked about how this investment will be reflected in Scotland Scottish Government officials noted that there has been communication with their counterparts at UK level. However, the Cabinet Secretary said—

” I have had no discussions of any description whatsoever with the chancellor. We were not informed in advance about the announcement and we have not heard anything about it since (...) it is a very substantial amount of money, and we expect Scotland to receive its due share.³⁴

100. The Committee calls for early clarity on the share of the additional funding for digital communications announced as part of the UK Government's autumn budget statement that will be allocated to Scotland. The Committee encourages both the UK and Scottish Governments to work closely together and to continue to build strong working relationships so that the best value for money can be achieved through effective coordination of UK-wide and Scotland-specific funds.

Reducing costs by promoting competition

101. Ofcom informed the Committee that it wishes to increase competition with BT in order to incentivise investment. He stated that Ofcom will seek to require the legal separation of Openreach from BT after it failed to adequately address competition concerns. Ofcom is also working to support Government decision-making on public investments in commercially unviable areas.
102. In a written submission, Bob Cornish was critical of the way BT Openreach operates. He said—

” The failure to provide it [broadband] universally is a result of both market failure, and strategic failure in the way that BT and Openreach have been managed and regulated.³⁵

103. The Cabinet Secretary welcomed the prospect of increased competition and the opportunities this would provide to those on lower incomes. He said—

” We welcome that aspect of the Ofcom regulation. It is at a very high level, but the intention of stimulating more competition is a good one. There are not that many mobile operators and BT has just purchased another one of them. We work with all the operators but, as Mr Cook has said, we want those on lower incomes not to be excluded from digital access.³⁶

104. The Committee notes the prospect for increased competition between internet service providers. It understands that the intention is to stimulate increased private investment in the sector and may help to reduce the demands on the Scottish Government budget. The Committee hopes that this will make broadband access in rural areas more affordable and accessible for rural communities, although it remains unconvinced that it will deal entirely with market failure.

Communication

105. A critical task for the Scottish Government and service providers is to keep the public well informed of progress towards delivering broadband infrastructure in their local area. The Committee heard that many people are left confused and disappointed by the quality of communication in some areas to advise them whether or not an upgrade is planned for their exchange. They can also have insufficient information available to them to decide whether they should wait for a connection to be provided or consider alternative options such as participation in a community broadband scheme.

106. The Committee also recognises that simply making information available online is neither practical nor effective as many people in areas with ineffective broadband services may not be able to access it.

107. As part of the upcoming refresh to Scotland’s digital strategy the Committee would like to see the inclusion of proposals to make available information on all broadband infrastructure delivery proposals planned across Scotland, which is accurate, comprehensive, accessible and easily searchable by the public.

Social inclusion and skills shortages

108. The Scottish Government’s Draft Budget 2016-17 stated that in that year it would:

- promote the development of high quality digital skills within all sectors of the Scottish economy; and

- promote digital participation amongst currently excluded groups such as the elderly and those in social housing, through partnership working with businesses and the third sector.

109. The Scottish Household Survey [Annual Report](#) states that home internet access has increased over the past decade from 42% in 2003 to 80% in 2014 and 2015. However, the report also shows that only 60% of households with incomes of £15,000 or less had home internet access, increasing to 98% of households with incomes over £40,000. The survey results show that there has been no significant change by most measures (income, deprivation and tenure) from 2014.

110. Dick Barbour-Might said in written evidence—

” Even when a project is carried through to successful completion there may well be households that do not benefit. Some element of subsidy may be needed to cover running costs and reduce the burden on households surviving on low incomes.³⁷

111. The Scottish Government said that it is committed to refreshing its digital strategy—

” Participation will feature heavily in that, because securing the benefits of connectivity, be it for homes, businesses or farmers, is, as we have heard today, at the heart of why we are making those investments.³⁸

112. The Committee recognises that even if a locality is successfully connected to superfast broadband there may be people who are not able to afford to access the service or do not have the skills and knowledge in order to do so.

113. The Committee is encouraged to hear that digital participation will feature heavily in the refreshed digital strategy expected in 2017. It looks forward to seeing the detailed funding arrangements for such projects as part of the strategy.

Mobile connectivity

114. The Committee questioned the Cabinet Secretary on the budget available to address mobile connectivity coverage gaps.

115. The Cabinet Secretary highlighted the [Scottish Government's Mobile Action Plan](#)³⁹, which is the only such plan in the UK. This includes working to extend permitted development rights so that construction of mobile masts can be completed as swiftly as possible and applications can be aggregated. The Cabinet Secretary also informed the Committee that the Scottish Government are working to increase the height of masts to widen the reach of mobile signals. In addition, he noted particular projects such as a rates relief pilot for mobile operators in

national parks as well as working with emergency services to explore the use of their mobile masts.

116. Colin Cook from the Scottish Government said—

” At present, the precise allocation of budget between mobile and the building of the fibre infrastructure for R100 is subject to the completion of open market reviews and the development of the procurement exercises. However, we are confident that we have made the overall allocation to enable those two programmes to go ahead in the ways in which they need to go ahead.⁴⁰

117. The Committee explored how the Scottish Government is preparing for 5G technology. Colin Cook noted the link between modern mobile and internet devices and the importance of fibre in the ground to provide the backhaul connections to enable Scotland to prepare for 5G and other future technologies.

118. The Cabinet Secretary confirmed the Scottish Government would consider contributing funds to support an early 5G trial in a rural area of Scotland.

119. The Committee expects to hear how the UK and Scottish Government propose to address gaps in mobile coverage. It is pleased that the Scottish Government has agreed to work with the UK Government to support a trials of 5G mobile technology in a rural area of Scotland. The Committee believes that this will help to better reflect the needs and realities of rural communities.

Common Agricultural Policy (CAP) payments

120. The Committee has taken a close interest in the Scottish Government’s administration of the CAP IT programme and the associated payment delays. The draft budget shows large increases for both the CAP IT futures programme and payments and inspections administration costs.

121. Payments and inspections administration costs have increased significantly year on year from £34.6m in 2014-15 to £62.9m in 2017-18. CAP compliance costs have increased by 61.1% over last year’s budget. In noting these increases, Committee members asked the Cabinet Secretary whether these were directed at ensuring that the CAP IT difficulties which had resulted in late payments in recent years would not be an issue in the coming year. In response, the Cabinet Secretary stated—

” My top priority is to get the system right. I am spending time...meeting the chief executive of CGI, which is the main contractor, to ensure that things are on track in order to avoid—as we all wish to do—a repetition next year of what we saw last year.⁴¹

122. The Committee requested further details of the increase in the costs of the CAP Payments and Inspections Administration Costs in the period from 2014-15 and 2016-17, and these were subsequently provided in a written response from the Cabinet Secretary for Rural Economy and Connectivity. This indicated that the most significant element consisted of £16.2m (£4.3m in 2015-16 and £11.9m in 2016-17) which related to an increase in depreciation charges (non-cash) arising from the Futures IT system. No further information on the background to these charges is provided.

123. The Committee requests further information from the Scottish Government as to why there were such significant increases in depreciation charges arising from the CAP Futures IT system in 2015-16 and 2016-17. In particular, it calls for clarification on how the increased depreciation charges compare with those anticipated as part of the original project costs and whether the increases were directly associated with the difficulties with the Futures IT project which emerged in these years.

124. The Committee also notes from the additional written information provided by the Cabinet Secretary that £8m is budgeted in 2017-18 for corporate recharges relating to “an internal charge to cover accommodation, IT and telecommunications costs”. Again, no detailed information is provided on why these costs will be incurred.

125. The Committee therefore calls on the Scottish Government to clarify the nature of the corporate recharges which amount to £8m and, specifically, to indicate whether these are associated with the cost of additional staff being brought in to work on the CAP Futures Programme.

126. The Committee will continue to monitor closely the effectiveness of the Scottish Government’s management of the CAP Pillar 1 direct payments process and, in particular, the performance of the CAP Futures IT system. It will seek regular oral or written updates from the Cabinet Secretary.

Basic Payment Support (BPS) Loan Schemes

127. During discussion with the Cabinet Secretary for Rural Economy and Connectivity, the Committee sought details of how the Basic Payment Support (BPS) Loan scheme payments made by the Scottish Government are subsequently reconciled with EU payments. The Committee was keen to understand the detail of how the whole process works in terms of balance sheet transactions.

128. Committee members were aware that the BPS loans comprise only 80% of estimated EU grant entitlement for each farmer, and they wanted to

understand how the remaining 20% was managed within the process. The Cabinet Secretary subsequently provided further information which is summarised as follows—

- BPS loans are funded from the Scottish Government's (Financial Transactions) Budget.
- EU funds are drawn down from the Rural Payments Agency (RPA) at the point at which BPS Grant payments are ready for payment.
- A BPS loan to a producer will not be recovered directly (unless there is a balance outstanding). The value of the loan paid will be deducted from the EU grant payment with the balance of that payment being remitted to the producer.
- Any outstanding BPS loans at the financial year-end will appear as a debtor on the balance sheet of the Scottish Government.
- BPS grant payments are recorded in the Scottish Government's outturn statement on an accruals basis with income and expenditure matched to the financial year.

129. Members also asked where funding for the loan schemes in 2017-18 appears in the draft budget documents. The Committee notes the statement by the Cabinet Secretary in his written response that—

” There are no plans at this stage for a BPS loan scheme in 2017-18...Decisions to deploy loan schemes for the 2015 and 2016 payment rounds were taken after the publication of the Draft Budgets for each respective year.⁴²

130. The Committee notes this additional information which provides useful clarity on the BPS loans process. However, it is of the view that the Scottish Government must, as a priority, take all possible action to ensure that the difficulties experienced in the operation of CAP Futures IT system in recent years are overcome and that there is no requirement for a further round of BPS loans in 2017-18.

Active travel

131. The Scottish Government published an updated version of the Cycling Action Plan for Scotland (CAPS) in June 2013, which includes the “shared vision” for 10% of everyday trips to be taken by bike by 2020. The Scottish Government's walking strategy for 2014 is designed to encourage people to walk more often and to create better quality working environments.

132. In its legacy report⁴³, the Infrastructure and Capital Investment (ICI) Committee highlighted that through its budget scrutiny in Session 4, it had consistently called on the Scottish Government to increase budgets for active travel and associated infrastructure. There is evidence to show that the level of travel by foot and bike has remained relatively stable over the last few years, but that there is considerable variation over Scotland. In its report on the Draft Budget 2016-17, the ICI Committee recommended—

” “That in the next spending review the Scottish Government make a step-change to the level of funding for sustainable and active travel, perhaps linking the budget to an overall percentage of the overall transport budget...The Scottish Government should also separately identify spending programmes on Sustainable travel and Active travel to reflect the substantive differences between sustainable travel investments and active travel investments.”⁴⁴

133. In a written submission to the REC Committee, the Lothian cycle campaign group SPOKES reiterated its view that for the Government to fulfil its ambitious commitment for 10% of all trips to be made by bike by 2020, 10% of the overall transport budget would need to be dedicated to active travel.

134. The Committee notes that despite an 80% increase in the active travel budget from £21.35m in 2013-14 to a consistent spend of £39.2m in each of the past three years, this has not resulted in an increase in the number of journeys made by bike. Active travel spending as a proportion of total transport spending has fallen from roughly 1.7% of transport expenditure in 2016/17 to 1.6% in 2017/18 – a fall of around 6%. It notes the concerns of stakeholders who highlight the likelihood that, given current levels of investment, the Scottish Government is unlikely to meet its walking and cycling targets.

135. The Committee echoes the recommendations of the previous Infrastructure and Capital Investment Committee and calls on the Scottish Government to set out how it can increase funding for active travel in order to make tangible progress towards meeting its stated targets.

Rail fares

136. In his statement on the draft budget on 15 December 2016, the Cabinet Secretary for Finance and Constitution indicated that, in recognition of recent rail service performance issues in Scotland, a £3m package of targeted fare reductions would be provided to “ease costs for passengers and thank them for their patience”. Transport Scotland subsequently announced on 16 December 2016 that the discounts highlighted in the budget statement would give—

” ...monthly and annual season ticket holders...a free week of travel on our railways. Alongside this, ScotRail will develop a set of fare offers for weekly season ticket holders, daily commuters and leisure travellers to ensure even more passengers can benefit.⁴⁵

137. The Committee wrote to the Cabinet Secretary for Rural Economy and Connectivity following his appearance before the Committee on 21 December asking him to confirm whether the proposed fare reductions would be funded by Abellio Scotrail or by the Scottish Government. In a written response, the Cabinet Secretary stated:

” The first £1.8m of the funding is to be provided by ScotRail from funds it already holds, with the balance to be met by the Scottish Government over the course of the next financial year.⁴⁶

138. The Cabinet Secretary was also asked to explain how the figure of £3m for the fare discounts package had been calculated. He responded—

” The figure of £3m was judged to be both affordable and proportionate, and is sufficient to cover both the cost of the free week of travel for monthly and annual season ticket users, and the cost of additional fare reductions targeted for other passengers.⁴⁷

139. The Committee welcomes this initiative by the Scottish Government which will provide a small reduction in travel costs for some regular rail travellers in Scotland. However, it remains unclear whether the £1.8m funding contribution to be provided by Scotrail will be from funds previously provided to it by the Scottish Government under the franchise arrangements, or if it will be drawn from its own revenue. The Committee therefore requests that further clarity be provided by the Scottish Government on the sources of the funding for the fare reductions package.

140. In addition, given the timing of the announcement of the fares reductions, there is no reference to them in the draft budget documents. The Committee therefore also calls on the Scottish Government to confirm whether its contribution to the package will be made from the Level 4 *Rail Franchise* budget line and, if so, whether this line will be adjusted as a consequence.

Ferries

141. In the Draft Budget 2017-18 support for ferry services is set to increase by 11.6% from £107.3m in the 2016/17 draft budget to £119.7m. This covers the Clyde and Hebrides ferry services, the northern isles and the Gourock to Dunoon route. The Scottish Government states in its level 4 budget spreadsheet that this change—

” Reflects budget to support contractual arrangements and service developments.⁴⁸

142. The Scottish Government clarified that the move to smart ticketing, inflation and contributions to the funding of the pensions deficit are all reflected in the increased budget. It was further confirmed that money has not been set aside for a reduction in fares for the northern isles services, but that work is on-going.

143. The Committee recognises the vital connection that ferries provide to our island communities. It welcomes the 11.6% increase in funding made available for the continuance and improvement of services. It notes that work to examine options for a reduction in fares for the northern isles services is on-going and looks forward to receiving further information on this matter in due course.

Concessionary Travel Scheme

144. The Concessionary Fares line in the Level 4 figures accompanying the draft budget shows a reduction from £207.8m in 2016-17 to £198.3m in 2017-18, a reduction of £9.5m or 4.6%. When questioned about the background to this reduction, Mike Baxter, Finance Director, Transport Scotland, explained—

” Historically, the budget line for concessionary travel has been underspent and the budget for the bus service operators grant...has been overspent, so the two things have balanced out. There has been an adjustment to the budget to reflect actual uptake. For the current year, the outturn is projected to be of the order of £195 million, which covers the older people, disabled people and young people elements of the scheme. There has been an adjustment in that regard.⁴⁹

145. Mr Baxter also confirmed that the proposed budget provision will have no effect on entitlement for current participants on the Concessionary Travel Scheme.

146. The Committee notes that, in its Programme for Government, the Scottish Government undertook to consult with stakeholders on options to safeguard the sustainability of the concessionary travel scheme.

147. The Committee sought details in writing from the Scottish Government of the timing, nature and extent of the proposed consultation and requested an indication of whether it is likely to explore changes to age and other eligibility criteria. In a written response, the Cabinet Secretary for Rural Economy and Connectivity advised the Committee that—

” A formal consultation will follow on from the initial phase of engagement...and we envisage a high degree of interest from members of the public and representative groups. All of the responses will inform our

consideration on whether (and if so how) to take forward specific measures.⁵⁰

148. The Committee notes the Scottish Government's assurance that the proposed budget reduction for concessionary travel will have no impact on entitlement for current scheme participants. However, it calls on the Scottish Government to provide further clarity on whether this cut will have any consequential impact on bus services and ticket prices for the general public.

Prestwick Airport

149. The draft budget provides for continued loan funding of £9.4m for Prestwick Airport. The Cabinet Secretary indicated that this investment was reflective of the Government's commitment to successfully developing the airport over the coming years, in line with Prestwick airport's business plan.
150. The Committee wrote to the Cabinet Secretary following his appearance on 21 December to ask about the cumulative level of loan funding being drawn down by Glasgow Prestwick Airport (GPA). In response the Scottish Government stated that—

“ We can return GPA to profit, although this will take a long-term investment. We have always said there is no quick fix and it will require a sustained effort over a number of years. We require GPA to generate a long-term return for taxpayers and expect all loan funding will be repaid, plus interest. We intend to return GPA to the private sector, when the time is right.⁵¹

151. The Committee notes the Scottish Government's commitment to develop Glasgow Prestwick Airport. However, it is concerned that the cumulative level of loan funding, which could approach £40m by 2018, could present a potential barrier to private sector investors. It intends to invite Scottish Government representatives to a future evidence session to provide further information on issues pertaining to the financial management of Prestwick airport.

Peatland Restoration

152. Covering more than 20% of Scotland, peatlands act as carbon stores and make a significant contribution to tackling climate change, increasing biodiversity and improving water quality. Peatland restoration is one of a number of agri-environment and climate change measures within the Scottish Government's Scottish Rural Development Programme 2014-2020 (SRDP). Although agri-environment measures contribute significantly to environment, climate change and

land reform outcomes, policy is worked on collaboratively between Mr Ewing and Ms Cunningham's portfolios, with the budget responsibility aligned to Rural Economy and Connectivity. Scottish Government officials—

” Within the SRDP, the budget for 2016-17 included £2 million to cover peatland restoration. That amount has been increased by £8 million in the 2017-18 budget, so significant additional investment has been put in to peatland restoration.⁵²

153. The Committee requested further information on the Agri-Environment Measures budget line as it relates to peatland restoration and was informed that the Scottish Government's increased investment would be transferred to Scottish Natural Heritage (SNH) to continue a domestically-funded initiative supporting some actions that are not covered by the SRDP measures.

154. The Committee welcomes the increase in peatland restoration investment by £8m, highlighting the importance of Scotland's peatlands to the rural economy and the valuable contribution well-managed peatlands make to Scotland's rural landscape and tackling climate change.

Highlands and Islands Enterprise (HIE)

155. Initially it would appear that the budget for HIE this year has fallen by around 10% from £74.5m to £67m. However, the Committee was advised by the Scottish Government that the allocation of £8m to Wave Energy Scotland has not been included in the Draft Budget 2017-18, but will be transferred in the 2017-18 Autumn Budget Revision. This accounts for the apparent reduction in the budget.

156. The Scottish Parliament's Economy, Jobs and Fair Work Committee carried out a more detailed consideration of HIE funding, taking evidence from Charlotte Wright, Interim Chief Executive of Highlands and Islands Enterprise on 1 November 2016.

¹ Economic Contribution of Forestry in Scotland available at

<http://scotland.forestry.gov.uk/supporting/forest-industries/economic-contribution-report>

² Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 23 November 2016, Col 36. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10652>

³ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 23 November 2016, Col 37. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10652>

⁴ Tillhill Forestry, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 7.

⁵ Scottish Government (2016). [Jim MacKinnon, Analysis of Current Arrangements for the Consideration and Approval of Forestry Planting Proposals](#)

⁶ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 7 Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>

⁷ Confor, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 17

⁸ Scottish Land and Estates, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 14

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- ⁹ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 5. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>
- ¹⁰ Scottish Parliament Information Centre (2016) *Scottish Forestry*. SPICe Briefing SB 16/93
- ¹¹ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 23 November 2016, Col 39. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10652>
- ¹² Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 9 Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>
- ¹³ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 23 November 2016, Col 50. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10652>
- ¹⁴ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 10. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>
- ¹⁵ Tillhill Forestry, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 10
- ¹⁶ Scottish Land and Estates, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 17
- ¹⁷ Blair Atholl and Struan Community Council, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 4
- ¹⁸ Blair Atholl and Struan Community Council, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 4
- ¹⁹ Alvah and Forglen Community Council, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 11
- ²⁰ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 30 November 2016, Col 23. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10670>
- ²¹ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 17 Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>
- ²² Royal Highland and Agricultural Society of Scotland, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 9
- ²³ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 30 November 2016, Col 22. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10670>
- ²⁴ Scottish Government. (2016) *Draft Budget 2017-18 Level 4 portfolio figures*.
- ²⁵ Dick Barbour- Might, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 10.
- ²⁶ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 24. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>.
- ²⁷ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 19 Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>
- ²⁸ BT Written Evidence to the Rural Economy and Connectivity Committee, paragraph 12.
- ²⁹ BT Written Evidence to the Rural Economy and Connectivity Committee, paragraph 12.
- ³⁰ Loch Rannoch Highland Club, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 27
- ³¹ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 30 November 2016, Col 8. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10670>
- ³² Bob Cornish, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 11
- ³³ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 30 November 2016, Col 17. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10670>
- ³⁴ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 22. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>
- ³⁵ Bob Cornish, Written Evidence to the Rural Economy and Connectivity Committee, paragraph 10
- ³⁶ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 28. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>
- ³⁷ Dick Barbour Might, Written Evidence to Rural Economy and Connectivity Committee, paragraph 14
- ³⁸ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 27. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>.
- ³⁹ Scottish Government (2016) *Mobile Action Plan*
- ⁴⁰ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 27. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>.
- ⁴¹ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 39. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>.

⁴² Cabinet Secretary for Rural Economy and Connectivity, Additional written submission, 30 December 2016

⁴³ Infrastructure and Capital Investment Committee, 18 March 2016 (Session 4), [Legacy Report](#) (SP Papers 968)

⁴⁴ Infrastructure and Capital Investment Committee, 29 January 2016 (Session 4). [Report on Draft Budget 2016-17](#).

⁴⁵ Scottish Government (2016) [Rail ticket holders to benefit from 'free week'](#).

⁴⁶ Cabinet Secretary for Rural Economy and Connectivity, Additional written submission, 30 December 2016

⁴⁷ Cabinet Secretary for Rural Economy and Connectivity, Additional written submission, 30 December 2016

⁴⁸ Scottish Government (2016), [Draft Budget 2017-18 Level 4 portfolio figures](#)

⁴⁹ Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 33. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>

⁵⁰ Cabinet Secretary for Rural Economy and Connectivity, Additional written submission, 30 December 2016

⁵¹ Cabinet Secretary for Rural Economy and Connectivity, Additional written submission, 30 December 2016

⁵² Scottish Parliament Rural Economy and Connectivity Committee, *Official Report*, 21 December 2016, Col 11. Available at: <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10710>

Annex A

Extracts from the minutes of the Rural Economy and Connectivity Committee and associated written and supplementary evidence.

6th Meeting, 2016 (Session 5), Wednesday 5 October 2016

4. Draft Budget Scrutiny 2017-18 (in private): The Committee agreed its approach to the scrutiny of the Scottish Government's Draft Budget 2017-18.

 [Letter from the Committee to the Cabinet Secretary for Finance and the Constitution regarding digital budget, 13 October 2016](#)

11th Meeting, 2016 (Session 5), Wednesday 23 November 2016

4. Draft Budget 2017-18: The Committee took evidence on the Scottish Government's forthcoming Draft Budget 2017-18 from—
Rodney Shearer, Managing Director-Alba Trees, Buccleuch Estates;
Jon Hollingdale, Chief Executive, Community Woodlands Association;
Stuart Goodall, Chief Executive, Confor;
Willie McGhee, Coordinator, Forest Policy Group.

 [Confor](#)

 [Letter from the Cabinet Secretary for Finance and the Constitution to the Committee regarding digital budget, 23 November 2016](#)

12th Meeting, 2016 (Session 5), Wednesday 30 November 2016

1. Decision on taking business in private: The Committee agreed to take item 5 in private.

2. Draft Budget 2017-18: The Committee took evidence on the Scottish Government's forthcoming Draft Budget 2017-18 from—
Stuart Mackinnon, Senior Public Affairs Advisor, Federation of Small Businesses;
Stuart Robertson, Director of Digital Highlands and Islands, Highlands and Islands Enterprise;
Zoe Laird, Community Broadband Scotland Director, Community Broadband Scotland;
Glenn Preston, Director, Ofcom Scotland;
Professor Michael Fourman, Royal Society of Edinburgh.

5. Draft Budget Scrutiny 2017-18 (in private): The Committee reflected on the evidence it has heard on the Scottish Government's forthcoming Draft Budget 2017-18 and considered its approach to future evidence sessions.

15th Meeting, 2016 (Session 5), Wednesday 21 December 2016

1. Decision on taking business in private: The Committee agreed to take item 4 in private and that the consideration of its draft report on the Draft Budget 2017- 18 will be taken in private at a future meeting.

2. Draft Budget Scrutiny 2017-18: The Committee took evidence on the Scottish Government's Draft Budget 2017-18 from— Fergus Ewing, Cabinet Secretary for the Rural Economy and Connectivity, Mike Baxter, Director Finance, Transport Scotland, Colin Cook, Director - Digital, Jo O'Hara, Head of Forestry Commission Scotland, and Simon Hodge, Chief Executive, Forest Enterprise Scotland, Scottish Government.

Annex B

List of other written evidence

Broadband

-  [Alvah and Forglen Community Council](#)
-  [Ardgay and District Community Council](#)
-  [Atholl Estates and Blair Castle](#)
-  [Balquhiddar Community Council](#)
-  [Bob Cornish](#)
-  [BT](#)
-  [Colin Ross, Blair Atholl and Struan Community Council](#)
-  [Dick Barbor-Might](#)
-  [Ewan Sutherland](#)
-  [Loch Rannoch Highland Club](#)
-  [Mina Moffat](#)
-  [Nial Mackinlay](#)
-  [Scottish Land and Estates](#)
-  [The Royal Highland and Agricultural Society of Scotland \(RHASS\)](#)
-  [Wendy Graham](#)

Forestry

-  [BSW Timber](#)
-  [Confor](#)
-  [Paths for All](#)
-  [Scottish Land & Estates](#)
-  [Tilhill Forestry](#)

Transport

-  [Spokes](#)

Annex C

The Committee wrote to the Cabinet Secretary for Rural Economy and Connectivity following the committee meeting on 21 December 2016. The Cabinet Secretary agreed to provide further information on a number of points. A response was received on 30 December 2016.

CAP PAYMENTS

The Committee asked for additional information on:

1. How the loan scheme payments made by the Scottish Government are subsequently reconciled with EU payments.
2. Where funding for the loan schemes appears in the draft budget.
3. Why there has been an increase in the costs of the CAP Payments and Inspections Administration Costs, which have increased significantly year on year from £34.6m in 2014-15 to £62.9m in 2016-17.
4. CAP loan over payments, the Cabinet Secretary indicated that “almost no interest was paid”. Can details be provided of how much interest has been paid?

The Cabinet Secretary responded:

1) The process

Basic Payment Support (BPS) Loans (funded by Scottish Government)

BPS loans are funded from the Scottish Government’s (Financial Transactions) Budget. BPS loans were calculated at 80% of the estimated EU grant entitlement for each producer with a cap of 150,000 Euros.

BPS Grants (funded by the EU)

EU funds are drawn down from the Rural Payments Agency (RPA) at the point BPS grant payments are ready for payment.

The RPA draw down monies for the whole of the UK directly from the EC as grant payments are made.

Recovery of loans

A SG BPS loan to a producer will not be recovered directly (unless there is a balance outstanding). The value of the loan paid will be deducted from the EU grant payment with the balance of that payment being remitted to the producer.

Accounting entries

Any outstanding BPS loans at the financial year-end will appear as a debtor on the balance sheet of the Scottish Government..

BPS grant payments are recorded in the Scottish Government’s outturn statement on an accruals basis with income and expenditure matched to the financial year.

2) Draft budget 2017-18 Loan scheme.

There are no plans at this stage for a BPS loan scheme in 2017-18. Decisions to deploy loan schemes for the 2015 and 2016 payment rounds were taken after the publication of the Draft Budgets for each respective year.

3) Increase in CAP Payments and Administration budgets since 2014-15

										£m
RPID Payments and Administration budget 2014-15										34.6
2015-16	Transfer of budget for Stud Farm from Crofting Assistance									0.5
	Transfer of AFRC staff from other budget lines into the same programme unit									6.2
	Increase in depreciation for Futures system									4.3
2016-17	Increase in depreciation budget for Futures system									11.9
	Public body Efficiency savings									-1.9
2017-18	Increase in budget for corporate recharges									8
	Public body Efficiency savings									-0.7
Draft Budget 2017-18										62.9

Notes: The budget increase includes

- 1) £16.2m (£4.3m+£11.9m) for depreciation charges (non-cash) arising from the Futures IT system.
- 2) £8.0m for corporate recharges being an internal charge to cover accommodation, IT and telecommunications costs.

4) No interest has been charged on loan overpayments arising from administrative error.

PEATLAND RESTORATION

The Committee requested further clarity on:

1. What the line in the draft Budget for “Agri Environment Measures” (£55.1m for 2017-18) will deliver?
2. The Cabinet Secretary’s responsibility for such matters and how this relates to the Environment, Climate Change and Land Reform portfolio.

The Cabinet Secretary responded:

1. Peatland restoration is one of a number of agri-environment and climate change measures within the Scottish Rural Development Programme 2014-2020 (SRDP). The Rural Economy and Connectivity draft budget 2017-18 for EU

Support and Related Service includes a budget line for Agri Environmental Measures which increases from £46.8m in 2016-17 to £55.1m in 2017-18. This includes increased spending on Peatlands restoration which will be transferred to Scottish Natural Heritage (SNH) to continue a domestically funded initiative - supporting some actions that are not covered by the SRDP measures.

2. The Scottish Government works collaboratively across portfolios and agri-environment measures contribute significantly to Environment, Climate Change and Land Reform outcomes.

ACTIVE TRAVEL

The Committee requested further clarity on:

- How the proposed total spend of £39.2m on active travel is made up and where this is reflected in different areas of the draft Budget.

The Cabinet Secretary responded:

In respect of Active Travel, the table below provides a summary of the prospective budget lines that will support our Programme for Government commitment to maintain record levels of investment in cycling and walking of £39.2 million in 2017-18:

Budget line	2017-18 Indicative Allocation (£ Million)
Sustainable and Active Travel - Capital	15.4
Sustainable and Active Travel - Revenue	6.4
Future Transport Fund	10.0
Cycling, Walking and Safer Streets	7.4
Total	39.2

FORESTRY

The Committee requested further clarity on:

- Whether the overall the amount of forestry land held is decreasing.

The Cabinet Secretary responded:

Since 2010 the amount of woodland on the National Forest Estate has grown from 443,000 ha to 471,000 ha. This figure includes the effect of forest sales and over 5,000 ha of new woodland planting on the Estate, including on recently acquired land. However the more significant trend is the expansion of woodland by natural processes largely as a result of active deer management.

RAIL FARES

The Committee requested further clarity on the free week of travel for season ticket holders announced on 16 December 2016. It asked:

1. Can the Cabinet Secretary confirm whether Abellio is funding these or whether the Scottish Government is providing an additional £3m to Abellio?
2. Can the Cabinet Secretary outline how the Scottish Government arrived at the figure of £3m for the ScotRail ticket discounts when full details of their extent have not yet been finalised?

The Cabinet Secretary responded:

1. The first £1.8m of the funding is to be provided by ScotRail from funds it already holds, with the balance to be met by the Scottish Government over the course of the next financial year.
2. The figure of £3m was judged to be both affordable and proportionate, and is sufficient to cover both the cost of the free week of travel for monthly and annual season ticket users, and the cost of additional fare reductions targeted for other passengers.

CONCESSIONARY TRAVEL

The Committee requested further clarity on the Scottish Government's intention to consult on the sustainability of concessionary travel. It asked:

- Can you provide details of the timing, nature and extent of this consultation and indicate whether it is likely to explore changes to age and other eligibility criteria?

The Cabinet Secretary responded:

With regard to our intention to consult on the sustainability of concessionary travel I would like to provide the following background to the Committee.

We want to ensure that our successful concessionary travel scheme for older and disabled people continues to benefit those who have the greatest reliance on free bus travel. In the Programme for Government we undertook to examine with stakeholders options to safeguard the longer term sustainability of the concessionary travel scheme. These discussions will include older peoples' and disabled peoples' representative groups, local authorities, bus operators and others.

A formal consultation will follow on from the initial phase of engagement, taking the standard 12 weeks and we envisage a high degree of interest from members of the public and representative groups. All of the responses will inform our consideration on whether (and if so how) to take forward specific measures.

Highlands and Islands Enterprise

The Committee noted that the budget for HIE this year appears to have fallen by around 10% from £74.5m to £67m. News reports suggest that this decrease is due to the allocation for Wave Energy Scotland not being allocated yet. It asked:

- Could the Cabinet Secretary confirm that this does indeed account for the decrease and if so, when the allocation for Wave Energy Scotland will be confirmed?

The Cabinet Secretary responded:

Wave Energy Scotland has been informed that their budget for 2017-18 is £8m, and the transfer of this will take place at the 2017-18 Autumn Budget Revision.

PRESTWICK

The Committee noted that the draft budget provides for continued loan funding of £9.4m for Prestwick Airport for 2017-18. It asked:

- What, if any, concerns do you have about the cumulative level of loan funding being drawn down by Glasgow Prestwick Airport.
- Is there a limit to the amount that the Scottish Government will lend to the airport?
- How are these amounts shown in the financial statements of Prestwick Airport?
- As these amounts are loans, what is the likelihood of their being repaid and on what timescale?

The Cabinet Secretary responded:

The Scottish Government bought GPA to prevent its closure and to safeguard the jobs at the Airport and those which depend on the Airport. In compliance with European Union State Aid rules, GPA is being operated on a commercial basis and at arm's length from the Scottish Government. The senior management team at the Airport has been tasked with all aspects of taking the airport forward.

We recognise that Glasgow Prestwick is a non-typical airport, where success is not predicated on passenger traffic or any one business area alone. The Airport's management team will consider all potential business opportunities and will maximise the use of the assets of the airport. This includes developing passenger services, freight, maintenance, repair and overhaul, fixed-base operations, property and Spaceport.

We can return GPA to profit, although this will take a long-term investment. We have always said there is no quick fix and it will require a sustained effort over a number of years. We require GPA to generate a long-term return for taxpayers and expect all loan funding will be repaid, plus interest. We intend to return GPA to the private sector, when the time is right.

The loans to GPA are recorded as a creditor to the Scottish Government on the balance sheet in the accounts Glasgow Prestwick Airport Limited with appropriate disclosure notes. The accounts of Transport Scotland and the consolidated Scottish Government accounts record the loan investment as a Financial Asset.

FERRIES

The Committee noted that in the, “Empowering Scotland’s Island Communities Prospectus”, the Scottish Government stated:

“The Scottish Government understands the significant financial challenges that can fall on individual local authorities, and is committed to the principle of fair-funding in the provision of ferries and ferry infrastructure. The Scottish Government recognises that the provision of transport services should not place a disproportionate financial burden on any Council..... with particular reference to the revenue and ferry replacement costs of internal ferry services of Orkney and Shetland, and commits to meaningful negotiation now to conclude this issue.”

The principles were taken on board through the Islands Areas Ministerial Working Group and officer in Shetland Islands Council, Orkney Islands Council and Transport Scotland. It is understood that Phase 1 is about establishing a position where Scottish Government provides full funding for inter-island ferry services in 2017/18. The Committee asked:

- Can you please advise how this matter is progressing and how much, if any, funding of Shetland and Orkney Islands inter-island transport services and infrastructure is in this budget?

The Cabinet Secretary responded:

We are continuing our dialogue with both Councils on this matter and also through the broader and on-going “Our Islands Our Future” and “Empowering Scotland’s Island Communities” initiatives as well as the joint work in the Islands Transport Forum, and the forthcoming development by Transport Scotland of the service specification for the Northern Isles ferry services.

Because of the stage of these discussions are at, provision has not yet been made in the Scottish budget for specific measures or investment.

