



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Wednesday 3 December 2025

Session 6



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PUBLIC AUDIT COMMITTEE

32nd Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

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

*Joe FitzPatrick (Dundee City West) (SNP)

*Graham Simpson (Central Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)

Thomas Charman (Audit Scotland)

Dr Margaret Cook (Former Principal and Chief Executive, UHI Perth)

Richard Robinson (Audit Scotland)

Graham Watson (Former Chair of the Board, UHI Perth)

Iain Wishart (Former Vice Principal (Operations) UHI Perth)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 3 December 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the 32nd meeting in 2025 of the Public Audit Committee.

Under agenda item 1, does the committee agree to take agenda items 4 to 8 in private?

Members *indicated agreement.*

“Financial sustainability and taxes”

09:30

The Convener: Agenda item 2 is consideration of the Auditor General for Scotland’s report, “Financial sustainability and taxes”.

I am pleased to welcome to the committee the Auditor General for Scotland, Stephen Boyle. Alongside the Auditor General, we have Richard Robinson, senior manager, and Thomas Charman, senior auditor, both from Audit Scotland. We have quite a number of questions to put to you this morning on the report, Auditor General, but before we get to those, I invite you to make an opening statement.

Stephen Boyle (Auditor General for Scotland): Good morning. As you said, convener, I am bringing to the committee my audit report, “Financial sustainability and taxes”. The report examines the Scottish Government’s use of devolved tax powers and the extent to which they are supporting fiscal sustainability.

Devolved taxes have contributed positively to Scottish budgets and are forecast to continue doing so, but their contribution is constrained by a relatively weaker Scottish tax base compared with the rest of the United Kingdom because of factors such as slower earnings and employment growth.

In the 2025-26 financial year, the Scottish Government expects to raise up to £1.7 billion from its Scottish income tax policy choices, but the overall benefit to the Scottish budget is projected to be much less, at £616 million. Our audit found that the Scottish Government has been not transparent enough about that difference, why it arises and to what extent it can be addressed by its tax and economic strategies.

The Scottish Government faces a growing fiscal challenge, with the gap between its resource funding and spending plans forecast to rise from £1 billion in 2026-27 to £2.6 billion by 2029-30.

Tax and economic growth are key pillars of the Scottish Government’s medium-term financial strategy, but we also found that the Government has not been clear enough about the role that tax is expected to play over the medium term, with the current strategy largely focused on controlling public spending.

The Scottish Government’s financial plans do not sufficiently address the fiscal risks arising from devolved taxes and how it plans to manage them. Its tax policy commitments mean that improving economic performance is crucial to further growth in tax revenues. The fiscal sustainability delivery

plan draws on actions within the national strategy for economic transformation, but the alignment of those two strategies needs to be improved.

This is an important time for the Scottish Government in its fiscal calendar, ahead of next month's 2026-27 Scottish budget. Clear and consistent communication is key to supporting public and parliamentary understanding and parliamentary scrutiny of budget choices and fiscal plans. My report includes recommendations to the Scottish Government to support transparency.

As ever, Richard Robinson, Thomas Charman and I will do our utmost to answer the committee's questions.

The Convener: Thank you for that introduction. I will go straight to the deputy convener to kick off the questioning.

Jamie Greene (West Scotland) (LD): Thank you, convener. Good morning. The report highlights the perilous state of Scotland's finances in relation to devolved taxes. In your opening statement, you said that the Scottish Government is not being transparent and clear enough with the public about additional taxes paid in Scotland relative to the net benefit to the Scottish Government. Indeed, you said that the contribution of devolved taxes, or additional taxes paid by Scots, is constrained. Why is that the case?

Stephen Boyle: Good morning. There are a couple of points in your question, and I will look to address both of them.

The first point is about transparency. We note in the report that the Scottish Government expects to derive £1.7 billion from Scottish income tax, but the benefit accruing to the Scottish budget will be a lot less. A general phrase attributed to the performance of the tax base that brings us to an understanding of how the fiscal framework operates between the two Governments is that there is no detriment to either side. I will bring in colleagues to elaborate on that in a bit of detail. We might use some technical language this morning, but it is probably quite helpful to get into that.

The transparency point matters. We found that, in the budget document, although it is clear what the anticipated tax revenues will be, it is much harder to see what the assumed benefit to the budget will be. Those two figures are not presented side by side. Instead, there is one figure at the front, but what it means for the budget is in one of the annexes. We think that that could and should be addressed more clearly in the presentation.

Why does that arise? In the report, we talk about complexity. In some places, we say that this is highly complex and relates to the impact of the

labour market in Scotland relative to the rest of the UK, the distribution of different types of jobs—highly paid jobs—and where they sit, in London and the south-east of England, relative to the spread of such roles in Scotland. I know that the committee is familiar with this as some of it was set out in oral and then written evidence that the committee took from the director general for Scottish exchequer earlier this year in response to the evidence that you took from us and the National Audit Office on tax arrangements.

That brings us to one of the recommendations that we make in the report, which I touched on in my opening remarks. If devolved taxes are to play such an important role in fiscal sustainability, there needs to be a clearer understanding of the impact of the levers of economic choices and more transparency around the expected benefit from them. Whether that complexity can be addressed will be a key factor in shaping fiscal revenues in the years to come.

If you are content for me to do so, I will bring in Richard Robinson to elaborate briefly, if that is helpful.

Richard Robinson (Audit Scotland): Thank you very much, Auditor General.

In paragraph 39 of the report, we set out that the prominence, for want of a better word, or presentation of the total up to the £1.7 billion figure alongside what it is anticipated to contribute to the Scottish budget in terms of additional spending power would help to provide clarity around the difference between those two figures.

On page 18, we talk about what is called the tax base performance gap. Each year, to reflect the tax that has been foregone to the UK Government budget, a block grant adjustment will be made. That block grant adjustment is based on the change in UK taxation on a per capita basis. To manage that, the like-for-like growth in Scotland would have to match it. Currently, it does not. Mostly that is due to the difference in earnings and employment growth in Scotland compared with the rest of the UK. That means that some of the tax policy benefits are being used to offset that gap, with the remainder being available as additional spending for the Scottish budget. We also set that out in exhibit number 7.

Jamie Greene: Thank you for those answers.

We know that tax is complex, but the public out there are trying to make sense of what is going on with the Scottish Government's finances. The key takeaway from the report seems to be that the Scottish Government might claim that the tax decisions that it makes are raising huge amounts of cash, to the tune of £1.7 billion in a single year, which is more than what people would normally pay in tax if Scotland followed the rest of the UK's

tax bands and rates. That gives the impression that there is more money sloshing around the Scottish treasury to spend on public services for example, but the reality is that, for every £1.70 raised, 61p is available to the Government. There is a huge disparity in what people think the Government is raising from people paying more tax—and people will have a view on that—and the reality is that people are not getting back what they are paying into the system.

Your report seems to highlight some worrying reasons for that: people in Scotland have weaker earnings; we have lower economic growth; there are behavioural changes in response to increased taxes; and, as we know from this week, some sectors are dying before our eyes, such as the oil and gas sector in the north-east. All of that is having an effect on the Scottish economy.

What does the Scottish Government need to do to restore public trust and confidence in the statistics that it is using?

Stephen Boyle: There are a few things to address before I signpost the committee to the recommendations in the report.

There is inevitably some uncertainty in dealing with forecasts. I know that the committee will be familiar with this through its scrutiny of Scottish income tax reports. There are a number of time differences; it can sometimes take two to two and a half years before there is certainty following the forecasts. Due to the nature of the tax system, especially the self-assessment component, there are time lags before there is real, clear data. However, the forecasts matter.

On the move from £1.7 billion raised to the anticipated benefit of £616 million, even that number changed—it was initially £830 million. Another complicating factor is that not just one set of forecasts from the Scottish Fiscal Commission shapes the Scottish Government's results; the work of the Office for Budget Responsibility also has an influence. We touch on that in aspects of the report and we can come back to it if that would be helpful.

Behavioural change is another complexity—there is no doubt about that. Individuals make decisions informed by a range of factors. The Scottish Fiscal Commission and others have done modelling on that. We think that a better understanding of the impact of tax and economic levers is the key route to improved clarity. Only 50 per cent of people say that they understand how the tax system operates—that is from the Scottish Government's own survey analysis, and it is different from the figure of around 40 per cent in other parts of the UK.

There are gaps to be addressed, but the most important one is on the point that you are touching

on; “tax base performance gap” is the phrase that captures the difference between the two numbers for tax benefit and what comes through to the Scottish budget. Analysis of the national strategy for economic transformation, the tax strategy and the fiscal sustainability delivery plan should show how all those plans are aligning so that there is a better understanding of what difference the economic changes that are intended will make to the tax benefits that eventually accrue. Those are the recommendations that we are making in today's report.

Jamie Greene: I think that you are right. I think, too, that people would understand that, for every pound raised, not exactly a pound would go full circle and come back to the Scottish Government. There is an element of acceptance that there is a complex settlement agreement and that the financial relationship between the UK Government and the Scottish Government is complicated, and that calculation is not always obvious to the public, as you have alluded to. However, people might be surprised about how little comes back—based on the statistic that you mentioned in your opening statement, it is about 30 per cent of the extra money, which they pay. We are talking about people who go out to work, pay their taxes and assume that most of that money will come full circle and go back to the Government that is taxing them in the first place, given that these are devolved decisions. The fact that so little of it comes back to the Government is what people will be surprised about. They will want to understand why so little of that extra money that they are giving to the Government is available to it to spend on public services. That may affect people's choices—it may affect their ability to have faith in paying more tax, if you like.

09:45

Stephen Boyle: The statistics suggest that 50 per cent of people do not understand this, which is a key point. That is a significant knowledge gap that needs to be bridged. People need to have a better understanding of how tax operates, its connection to public spending and, of course, what that means—and not in an abstract way—for the delivery of public services.

This is bound up in the issue of the existing arrangements. Between the two Governments there is a fiscal framework, the second iteration of which was agreed in 2023. It is not formally due for renewal until 2028, although whether that timeline remains or is amended is subject to agreement between the two Governments.

Some small things could be done better to help people understand and scrutinise, and to help Parliament scrutinise. I will not labour the point,

but setting things out in the budget documentation clearly, side by side, would be a helpful start.

In terms of the economic and tax strategies, there is work to be done to more clearly map out which of the economic interventions will make the biggest difference, or what differences the economic interventions are expected to make to the resultant tax take.

There is no doubt that the complexity is there—there will always be complexity around tax affairs and economic interventions, and what they mean for public spending. However, as a result of how industries and jobs are distributed across the UK relative to how the fiscal framework operates, we think that a gap exists that could be filled, or at least that more of it could be filled than is currently happening.

Richard Robinson: Exhibit 2 in the report may help to clarify things. If we look at exhibit 2, in terms of the outturn figures and the difference that they make to the budget, we can clearly see a marked change in the net contribution that the taxes will make to the budget once it gets to 2023-24. Some of that is due to more recent divergences in Scottish income tax. We can also see in exhibit 9, further on in the report, an expected positive contribution to the Scottish budget over the medium term. Therefore, taxes are contributing towards an improved Scottish budget position.

The fiscal framework is designed to reflect an element of that relative economic performance through tax take. It will depend on the extent to which the Scottish Government is planning how it will address that gap, because, potentially, it could go the other way. If tax-based performance growth in Scotland were stronger over time compared to that in the rest of the UK, it could go the other way and be a benefit to the budget. The bottom line is the extent to which the Scottish Government has enough information about the fiscal risks and the links between its economic plans and its tax policy plans to give it a full understanding of some of the structural and other risks that the Auditor General mentioned and the extent to which those can be mitigated, tolerated or reversed.

Jamie Greene: The graphs in the report are helpful for understanding something that is quite complex.

Auditor General, the current Scottish Government was elected in 2021. In advance of that election, it made the following statement—a promise, I suppose—to the public. It said that it would

“freeze income tax rates and bands and increase thresholds by a maximum of inflation”.

Based on your analysis of the Scottish budget over the past couple of years, has that been the case?

Stephen Boyle: I am not sure that I have the facts and figures at my fingertips to give you a definitive answer.

Jamie Greene: What I am getting at is whether bands or rates have changed, and whether thresholds have increased by a maximum of inflation over that period.

Stephen Boyle: Maybe I can give you a factual answer. Exhibit 4 sets out the differentials between Scotland and the rest of the UK—to be precise, it sets out the differentials between Scotland and England and Northern Ireland, given that there are some separate tax arrangements that exist in Wales. Exhibit 4 illustrates the change in tax for income tax bands in Scotland relative to those in England and Northern Ireland. Scotland operates with six income tax bands, from the starter rate through to the basic rate, the rates for higher earners and then the advanced rates. There are differences between Scotland and England and Northern Ireland. Perhaps that is illustrated in the tax strategy that the Scottish Government produced last year, I think—colleagues can keep me right about that. The strategy sets out the Government’s intentions for tax, and it is very clear, as we set out on page 13 of the report, that the Scottish Government wishes to introduce a progressive tax arrangement, whereby people will pay more tax as their income increases. That leads to differentials between the rates that Scottish income tax payers pay compared to the rates paid by income tax payers in England and Northern Ireland.

In the report before you today, we have not referenced the inflationary differences compared to other parts of the UK, which is what I think you are asking for. Rather, the report sets out the changes that are made through the tax strategy and what that signals for the future.

Jamie Greene: My original question was whether it is Audit Scotland’s understanding that changes have occurred to tax bands, rates and thresholds since 2021. My understanding is that that has happened.

Stephen Boyle: That is correct; I am happy to say that that is the case.

Jamie Greene: That is interesting, because on 13 November, the current First Minister said to Parliament:

“We have maintained our manifesto commitments in relation to taxation.”—[*Official Report*, 13 November 2025; c 19.]

Those commitments were to

“freeze income tax rates and bands”

for the duration of the parliamentary session, and to

“increase thresholds by a maximum of inflation”.

In your judgment, was the First Minister being accurate and transparent in making that statement?

Stephen Boyle: I would need to again refer you to the exhibit in the report where we set out the changes to tax bands that have occurred, along with the tax strategy that has been set out. I will maybe let others form a view as to whether that is a different position from what has been said elsewhere, but I am content that our report reflects factually the changes over the past few years.

Jamie Greene: A key element of your report is about transparency and accuracy for the public. The statement was repeated last week during First Minister’s questions, so it is an issue that comes up regularly at the forefront of political debate. Not for the sake of political debate but for the sake of transparency with the public, if the person in charge of the country is making statements about taxation and the state of Scotland’s finances, surely, in terms of accuracy and transparency, they have to be 100 per cent open, honest and clear.

Stephen Boyle: We are very clear in today’s report about the need for better communication and transparency in terms of tax. I do not mean all tax; we are primarily talking about income tax arrangements, although I am sure that the committee will have seen that the report covers other devolved taxes—land and buildings transaction tax, landfill tax and so forth—that make a contribution, albeit a considerably smaller one, to the Scottish budget.

As I set out my opening remarks, I think that there is a lack of understanding among the general public about how income tax arrangements work and how they inform public spending opportunities in Scotland. There are opportunities to have clearer communications and clearer budget documentation to bridge some of that gap.

Jamie Greene: Thank you. I will let others come in, convener.

The Convener: Thank you very much.

The key facts at the start of the report make the point that you have just alluded to, Auditor General, which is that although there is a 1.6 per cent contribution from land and buildings transaction tax and a 0.1 per cent contribution from the landfill tax, by far and away what we are talking about this morning is income tax, is it not?

Income tax makes up almost a third of the Scottish budget. We need to be clear in our evidence session this morning that, first and foremost, we are talking about income tax.

Some of your recommendations are primarily about the Government’s approach to income tax. What struck me is that the six recommendations that you make on page 6 of the report, which are all directed at the Scottish Government, all talk about transparency and things being set out more clearly. They talk about information being more “accessible and transparent”, set out “more transparently”, and being stated “clearly”, to “support transparency and public understanding.”

There is a bit of a problem here, is there not? The current approach is opaque.

Stephen Boyle: To address both your points, convener, exhibit 2 in the report captures that. You can barely see in the coloured graph the relative contributions. Although the devolved taxes are important, in terms of the scale of their impact, what has a direct bearing on the Scottish budget almost all comes from Scottish income tax.

There is a need for better transparency and clarity, and you are right that we capture that language in the report. I do not say this glibly, convener, but this is complicated. Many of the reasons for the differences are structural, and it will take time to better analyse and investigate some of the differences in the job market and the distribution of different industries between Scotland and the rest of the UK. However, that will never provide absolute certainty, and I do not think the report is suggesting that. There are timing differences that have to be dealt with, as well as forecasts from the two official forecasting bodies. Nonetheless, more could be done to bring improved understanding for the public and to support parliamentary scrutiny. Ultimately, we hope that our recommendations benefit the Scottish Government in allowing that clearer understanding of how tax strategies, the delivery of fiscal sustainability and the national strategy for economic transformation align, which could ultimately lead to closing some of that gap. What we are capturing here is the tax performance base gap.

Richard Robinson: I think that it is correct to say that transparency is a theme. That is why we talk about the presentation of figures and so on, which we touched on earlier.

There is a dynamic theme to the recommendations, which is about—I go back here to the purpose of the audit—the impact of tax on fiscal sustainability and how the Scottish Government is maximising that impact. The recommendation that relates to understanding structural economic differences and the

contributing factors, and how we strategise to improve the impact that taxes can have on that basis, is important. That is why we bring up the need for a closer alignment of economic strategies and tax strategies, which would enable people to clearly see, off the back of the economic pillars of fiscal sustainability, what impact we expect in terms of changes in the tax revenue raised and how that will support the medium-term position. Although transparency is an important dynamic, there are also some specific recommendations that are geared towards helping the Scottish Government to have better data, understanding and strategy around how to increase the impact that tax could have.

The Convener: I am struggling a bit to understand what that alignment between tax and economic strategy looks like. For example, the report alludes to the Government's stated aim to reduce the size of the public sector workforce. Is that based on a theory of crowding out, with the private sector mopping up those jobs? Is it based on an understanding that if you have fewer people in work, income tax receipts are likely to fall? What about earnings growth? There has been some talk about public sector pay settlements. We will take evidence in our next evidence session this morning from people from the college sector, and college pay rises have been cited as one of the reasons why the further education sector is struggling a bit financially.

Are you suggesting or recommending that, as part of aligning economic strategy with tax, there is some straightforward analysis of what those public policy decisions mean for tax receipts?

10:00

Stephen Boyle: That, and on a much wider scale, too. The Government's stated ambition to reduce the size of the public sector workforce in Scotland is set out in its public service reform strategy, which talks about a 0.5 per cent reduction over a period of time. However, I think that we are drawing a wider picture of the need for alignment.

A few years ago, we brought to the committee a paper in which we analysed progress against the national strategy for economic transformation. The paper identified many ambitions, some with indicators that were clear and some that needed a clearer description, and the Government has been reporting progress on them. We think there is a gap between the clear intended outcomes from the NSET and what they mean for tax receipts. I do not think that that is stated clearly enough. It is that particular alignment that we are referring to.

Thomas Charman or Richard Robinson might want to come in on this point as well. I have made

the observation that the current focus on fiscal sustainability is, in our view, more predominantly based on controlling public spending rather than on what benefit NSET and those interventions will have in relation to growing the tax base, together with some of the analysis that we have talked about. For example, we have talked about having a better understanding of the levers that Government can deploy, behavioural change and some of the structural issues to do with where industries and highly paid jobs exist across the country, so that there is clarity and better understanding to support decision makers, public understanding and the scrutiny of public spending. The public sector workforce is a part of it, but we think a wider component exists alongside that.

Thomas Charman or Richard Robinson may want to say a bit more.

Richard Robinson: I will start and then hand over to Thomas Charman.

I think that the Auditor General is correct. Spending and income are related when it comes to the budget. A public sector workforce, if you have one, pays taxes, and so on. Part of the medium-term financial strategy and the three-pillar approach is to consider each element in turn—the spending, the economy and the taxes—and how they relate to one another.

In our report, we are saying that the detail, granularity and focus are on the spending. When it comes to by how much and when the tax is changed beyond the contribution that it already makes, how much that will help to support the remaining fiscal gap could be clearer. That is why we are looking for more alignment between the economic strategy and the links with tax.

I will hand over to Tom Charman to talk a bit more about the pillar approach.

Thomas Charman (Audit Scotland): Thank you. In the second pillar on the economy in its fiscal sustainability delivery plan, the Scottish Government sets out a range of actions that it believes will grow the tax base, mostly drawn from the national strategy for economic transformation. However, our view is that the Government needs to go further and explain exactly which of those interventions will grow the tax base and over what timescale any benefits might be expected to materialise. It also needs to try to quantify the impact of that on tax receipts against part of its medium-term financial planning.

The Convener: I will move on to an area that is highlighted in your report in exhibit 1, which is titled, "Progress on implementing devolved taxes in Scotland has been slower than planned". That might be a bit of an understatement. For example, you refer to the devolved air departure tax, which was expected to be introduced on 1 April 2018.

You refer to the assignment of VAT receipts, which was supposed to be sorted out with a transition year in 2019 and implemented by 2020. We are talking about seven and five years ago and neither of those taxes has been implemented. Could you shed some light on why there have been those delays, what the problems are, and who, if anybody, is to blame?

Stephen Boyle: I will say a word or two and then bring colleagues in to set out some of the detail.

I will comment on VAT first, convener. I think that I have said the word a couple of times already, but there has been real complexity in the substance of trying to move beyond the ambitions in the Scotland Act 2016 and the Smith commission that preceded it and which was the origin of the assignment of VAT receipts, rather than an intention to give powers to the Scottish Parliament to set a differential VAT rate. Therein lies the complexity as to how His Majesty's Revenue and Customs records exist. In essence, it is not always clear where a transaction originated. Did it take place in Scotland or was it in another part of the UK? That is the barrier to applying that part of the 2016 act, which it was the intention to do.

I do not know whether I can give any clarity or assurance to the committee about what will happen next. It feels as though there are some significant hurdles to the assignment of VAT being part of the day-to-day powers of the Scottish Parliament. You are not the first parliamentary body to raise concerns about that, convener. The Scottish Affairs Committee in Westminster raised similar concerns in its report in July of this year, in looking for clarity as to whether the timescales and, indeed, implementation in the round are realistic.

Richard may want to say a bit more about that, if there is anything else, and about the other powers that have not yet been implemented.

Richard Robinson: Thank you, Auditor General. I do not have much to add. The issue is around the methodology of the assignment, as you might expect with VAT. It is a value-added tax on a series of transactions, which can lead to complexities, especially for cross-border transactions. I understand that there has been a host of communication over time about the best methodology to use that both parties will be comfortable with. Part of that is about clarity around what the tax would generate and part is to do with managing fluctuations in what could potentially be large amounts of money that could vary considerably between years. The Scottish Government will probably be in a better position to talk you through more of the detail about where it has got to with the methodology, but you are right

to point out that implementation is significantly behind the planned transitional year.

The Convener: To use my old trade union terminology, is this just a long-term negotiation? Is there a dispute? At what level is the dispute? Is it at ministerial level? Is it at official level? What is the role of HMRC in this? HMRC obviously has relationships with the UK Government, the Treasury and the Scottish Government, and has had for quite a number of years.

Stephen Boyle: As Richard said, it is probably for the Scottish Government to update the committee on where discussions currently are. We are not sighted on any revised timeline or understanding of implementation and how that is progressing. What we take from the engagement that we have had is that there are complexity barriers that will need to be overcome, if they can be overcome, for this part of the Scotland Act 2016 to be implemented. It is probably for the Scottish Government to share with the committee any indication that those complexities can be set aside.

The Convener: I will bring Graham Simpson in, but before I do, I have one final question. I mentioned at the start that landfill taxation brings in 0.1 per cent of the Scottish Government budget and Scottish income tax brings in over 32 per cent—almost a third. Where would VAT assignments sit in that range?

Stephen Boyle: I am not sure. Richard, do you know?

Richard Robinson: I think that the Scottish Fiscal Commission has some provisional figures. Do you have any more detail on that, Tom?

Thomas Charman: I believe that VAT assignments would be the second largest revenue source, behind Scottish income tax, but we do not have the exact figures in front of us.

Stephen Boyle: We can quickly come back to the committee in writing on that.

The Convener: That is fine. I appreciate that. Thank you. Graham Simpson has some questions.

Graham Simpson (Central Scotland) (Reform): Thanks, convener. I want to stick to the VAT question. Was the proposal to allow the Scottish Government to keep all VAT receipts raised in Scotland, or was it to do that and be able to set its own rate of VAT?

Stephen Boyle: It was the former: it was a share of the VAT receipts. The intention was not for the Scottish Parliament to set its own or differential rate of VAT.

Graham Simpson: Listening to the convener asking about VAT, I was thinking that assignment would be really difficult, given the way trade works.

If you think about online selling, if someone buys something that comes from England, say, but they live in Scotland, how would you work out where the VAT goes? I guess that that is the kind of complexity that you are talking about.

Stephen Boyle: It is. Also, although this is for tax experts, not me, to brief or advise the committee on, even since the Scotland Act 2016 came into force, we have seen changes such as the UK leaving the European Union and the application of the United Kingdom Internal Market Act 2020. All those factors are relevant, Mr Simpson. We say at paragraph 5 of today's report that

"there is still no clear plan for its introduction",

and it feels like the ambition for the assignment of VAT receipts to apply to the Scottish budget is there, but there is no clear sense of a timeline for it.

Graham Simpson: Do you get the impression that both Governments have just given up on it?

Stephen Boyle: That will be for them to answer. We are saying that we are not clear on what comes next or whether the complexity that we have described and that you and the convener are asking about can be overcome.

Graham Simpson: I will go back to the key messages. I think that the key message is the first one, where you say:

"For example, in 2025/26 alone, the Scottish Government expects to raise up to £1.7 billion from Scottish Income Tax through its policy choices, yet the Scottish Budget is only projected to benefit by £616 million."

There we have a gap of around about £1 billion. What happens to that money?

Stephen Boyle: First, to be clear, that £1.7 billion is collected. There is no sense that the money is not levied and collected. You will probably see from the language of the key message that there are a couple of caveats here. One is that the amount is "up to" £1.7 billion. That is based on our forecasts. The other caveat is that the budget is "projected" to benefit by only £616 million. That will become known in due course—I have talked about the time lag that exists primarily as a result of the time that it takes for self-assessment to be completed.

What then follows is why there is a differential. I will bring in Thomas or Richard to talk about how the fiscal framework is applied to block grant adjustments, which is the root of why there is a difference. Colleagues can come in with more detail, but in essence the fiscal framework talks about there being "no detriment" to either the Scottish or the UK Government, going back to the initial transfer of powers.

Richard quite rightly makes the point that the projections are clear that Scottish income tax is forecast to make a significant impact upon the Scottish budget. I think that I said that in my opening remarks. The application of the framework, however, and the differences in salary growth and employment numbers in different parts of the UK compared to Scotland are at the root of the complexity. It is complex. There is no doubt about why the numbers exist. Our recommendation is that there needs to be a better understanding of that, and of how and whether the Scottish Government's economic growth intentions will have a direct bearing on the tax take in due course. If it will be helpful, Mr Simpson, we could turn to my colleagues for a moment, if you want to know more about that.

10:15

Graham Simpson: Before we do that, I am trying to get an explanation in layman's terms, for anyone watching, about why we can raise up to £1.7 billion and yet have only £616 million to play with. I am paraphrasing. The money has been raised. The money is somewhere. Where is it? Who has it?

Richard Robinson: Taxes are collected by HMRC. After the end of the financial year, after self-assessment and all the rest of it is collected, HMRC will work out, based on S codes and a variety of other things, what amount of that relates to Scotland. That becomes the outturn figure. The outturn figure is then added to the Scottish budget in its entirety.

The issue here is about the pace of the growth of the block grant adjustment, which means that the spending power of the Scottish budget overall, which is the net of those two sums, may be less than the total amount—effectively the total additional amount from policy choices. There are two factors. The first is policy choices and the difference that they make compared to the rest of the UK. For instance, do you tax more or less? The other factor is how the relative tax performance growth in Scotland is going compared to the rest of the UK. It is the net amount of those two factors. Because earnings and employment growth is slower in Scotland, the block grant adjustment is netting off more of the additional £1.7 billion raised, so the amount that is left is less than £1.7 billion. It is currently about £616 million. There is more information about the different factors affecting the growth in the tax base in the report, from paragraph 32.

Graham Simpson: I am looking at paragraph 32. It says that factors include

"• weaker earnings and employment growth

- behavioural responses from taxpayers ... such as choosing to work fewer hours or exiting the workforce
- differences in the sectoral make-up of the economy, such as the sensitivity of the oil and gas industry in Scotland”,

which is going through a really tough time at the moment, and

“• a different distribution of incomes in Scotland compared to the rest of the UK.”

Stephen Boyle: Those are the factors that influence how the fiscal framework and block grant adjustments work. Looking at what the Scottish Government thinks can be done to bridge the gap between the impact that the projected block grant adjustment is having, relative to the anticipated benefit that Scottish income tax will have on the budget, we have seen some of that detail coming through in the letter that I referred to. We set out in paragraph 35 of the report, where we refer to the letter that the committee received from the former director general for the Scottish exchequer, some of the behavioural change, the factors and the structural changes. I do not wish to labour the point but, essentially, the Scottish budget will benefit from bringing in not just higher taxes, but better-paid jobs to Scotland. That will be the driver that will have the key benefit of closing the differential that is set out in how the fiscal framework and the resultant block grant adjustments work.

Graham Simpson: Yes, we need to attract higher paid people, essentially.

Stephen Boyle: And there are complexities in that, in terms of where jobs and industries are distributed around the UK and how the fiscal framework operates—that principle of no detriment—but better-paid jobs will be the driver that will make a difference.

Graham Simpson: We have spoken before about the different tax rates north and south of the border and how they affect people; for example, whether higher earners leave because they do not want to pay as much tax. We have talked about those things before.

I want to ask about a couple of other areas. One is the transparency question. Between paragraphs 36 and 37 you say:

“The Scottish Government is not sufficiently transparent in explaining how taxes contribute to the Scottish Budget.”

I know that you have spoken about this already, but I want to know what it is that the Scottish Government is not being transparent about. What does the Scottish Government need to do to please you, Auditor General?

Stephen Boyle: There are a few things that the Scottish Government could do to be transparent in order to support scrutiny and public understanding. People are telling the Scottish

Government through its own survey that only about half of the Scottish population understands how taxes work and the benefit that accrues from that. There is an opportunity to support public understanding, the use of public services and engagement in public processes.

I will turn to Thomas to talk about documentation. We looked at transparency as part of our work on some of the budget documentation and how figures are presented, whether in the main body of the papers or the annexes. The tax benefit figure and the assumed performance gap figure are both in the papers but they are not presented side by side. That feels like a significant opportunity to support parliamentary understanding and public consumption of how tax and public spending operate. I will turn to Thomas first.

Thomas Charman: As the Auditor General and Richard Robinson have already mentioned, there is a section on tax at the very beginning of the budget documents. We find that the Scottish Government tends to present the additional tax rate—in this case, for 2025-26 that is £1.7 billion—but the net position, which is the amount that the Scottish budget benefits by as a result of tax devolution, is in the annexes at the back of the budget. In our report, we say that the budget does not present the two figures side by side, nor does it explain their relationship. Why is that £1.7 billion different from the £616 million net tax figure? That is the kind of transparency that we are calling for, to make the reasons behind those differences clearer.

Graham Simpson: It could be, of course, because it is a little bit embarrassing for the Scottish Government. Maybe the Government just does not want to be as up front as you would like—you do not have to comment on that.

I will ask you about something else: land and buildings transactions tax, which is the Scottish equivalent of stamp duty. Perhaps you can help us here. Do more people pay LBTT in Scotland than pay stamp duty in England?

Stephen Boyle: I will bring colleagues in on some of the detail.

As with income tax, there are different rates for property transaction taxes in Scotland compared to England and Northern Ireland—just to be precise about what we are comparing here. I will not read it out, but exhibit 6 in the report sets out the differentials between the rates, and there will be variables. There is a distinct and different arrangement in Scotland. As to how that translates into the revenue that is associated with it and the number of transactions, I will bring in Richard Robinson again.

Richard Robinson: We speak about that in paragraphs 28 to 30. There are differences in the point at which people pay and in the rates that they pay, as is illustrated in exhibit 6. There are also some differences in the additional dwelling supplement and the rates for first-time buyers. A slight difference with fully devolved taxes, which is what LBTT is, is that reconciliations can be applied quickly. The time lapses that we talked about for Scottish income tax before a reconciliation is applied to the budget do not apply to LBTT in the same way, which probably makes it slightly easier for Revenue Scotland and the Scottish Government to manage.

Graham Simpson: We will just plough on, despite the noise in the background.

Stephen Boyle: Our report looks at the contribution that devolved taxes make to fiscal sustainability. We note that there are differences between land and buildings transaction tax in Scotland and stamp duty land tax in England and Northern Ireland. I signpost the committee again to exhibit 2, which shows that, within the totality of the impact that devolved taxes are having on overall fiscal sustainability, property taxes make a relatively small contribution across the piece. It is much more about the impact that income tax is having and, as Thomas Charman mentioned, the potential impact that VAT assignment could have were that issue to be resolved.

Graham Simpson: I get that, but my original question—and maybe you do not have the answer—is whether more people pay LBTT in Scotland, as a percentage of the population, than pay stamp duty in England and Northern Ireland? Do we know?

Stephen Boyle: It will depend on the number of transactions. People in Scotland will pay different rates. Is the heart of your question about whether this is having a bearing on the number of property transactions in Scotland compared to England and Wales? That data is available, but I do not think that we have it to hand. We can come back to the committee in writing.

Graham Simpson: Thank you.

The Convener: Thank you very much indeed. I am now going to turn to Colin Beattie, who has some questions for you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Auditor General, I found your report interesting. It is one of the most clearly set out documents that I have seen on this subject. I would like to look at one or two of the issues arising in connection with fiscal sustainability, which have been touched on to some extent already. Your report highlights five specific challenges that are contributing to the financial pressures, such as Scotland having a

larger and better-paid public sector, the Scottish population being older and sicker, a real-terms cut to the capital block grant, slow real-terms growth in resources funding through the block grant and, of course, spending on Scottish Government policy commitments. Do you have a sense of the relative proportion that each of those elements contributes to anticipated funding pressures?

Stephen Boyle: We have not analysed the factors to map or quantify their relative impact.

Colin Beattie: Is it doable?

Stephen Boyle: If it were possible to quantify that, it would be an economic and forecasting matter for the Scottish Government together with the Scottish Fiscal Commission. The Fiscal Commission's modelling takes account of those factors and the anticipated behavioural changes to some extent—it would be for the Fiscal Commission to speak to that. In exhibit 8 on page 21, which is what I think that you are referring to, we sought to set out some of the context for the budget pressures together with the implications for the budget, as the Scottish Government is looking to address both the revenue and capital challenges that it set out in its own documentation through the medium-term financial strategy. Next month's budget, together with the Scottish spending review, will give a clearer indication about what comes next for some of the ambitions that are set out in the public service reform strategy—some in relation to the national health service, which is the biggest consumer of public spending in Scotland through public health interventions and the preventative models that are intended—and what bearing they will have on future fiscal sustainability. We will look to those events next month through the Government's forecast and spending review and the Fiscal Commission's forecast to give us clearer insight into the impact of those levers and what difference they are expected to make.

10:30

Colin Beattie: The question of whether behaviour has changed has been considerably explored over a number of years. The last time we spoke to HMRC, it indicated that there was some sign of behavioural change. Here we are looking at something rather more concrete. In 2023-24, the increase in the additional rate and the lowering of the threshold was expected to raise £65 million but, due to behavioural responses, only £11 million was raised, and in 2024-25 the increase to the top rate was intended to raise £53 million but raised only £8 million. Both cases represented a more than 80 per cent divergence in the amount of tax received. Are we getting to the point where we bring out the old Laffer curve and say that tax rises are no longer effective?

Stephen Boyle: You beat me to the Laffer curve. There are many tax and economic theories about how far Governments around the world can go with tax rises. Ultimately, these are political choices and decisions for the Parliament and for the Scottish Government to make in presenting its budget. However, there is clear evidence that those taxpayers with the most resources at their disposal, top-rate and higher-rate taxpayers, are better placed to make decisions about where their income is captured and where they reside. What we are seeing from some of the evidence that is set out in exhibit 10—and there will be many other sources for this—is that it is challenging for Governments to generate tax revenues beyond a certain point. To come back to some of our wider considerations in this paper, what does that mean alongside the pillars of public service delivery, public service expenditure and economic growth and how do those strategies align?

There is an opportunity for the Government to be clearer in order to be successful in its ambitions to deliver public services. The evidence that there is limited scope for tax rises to generate the assumed benefit is, as we have touched on a number of times this morning, perhaps best illustrated by the differential between the £1.7 billion tax take and what then comes through the Scottish budget.

Colin Beattie: If we look at those two issues, which are the only ones that we have any detail on, does the calculation of how much was raised depend purely on income tax or does it take into account the knock-on effect of a reduction in expenditure, which would lead to a drop in VAT income?

Stephen Boyle: The former, I think. Richard Robinson can confirm that, but I think that we are pretty clear about it. The analysis that we set out in the table relates only to income tax, but there are potential wider implications of how and where people are based that could have a bearing on other taxes. As it relates to our considerations, we were looking only at the application of devolved taxes, but there may be other factors. I do not know whether Richard Robinson wants to comment briefly on that.

Richard Robinson: Exhibit 10 shows the Scottish Fiscal Commission's modelling, which is in effect a forecast of what the impact could be. Part of the issue with any element of behavioural change is that there are assumptions and forecasts about what is going to happen and then, once the actual figures are in, there is an exercise of seeing how they relate back to the forecasts. The committee will be aware, not just from this report but from the annual Scottish income tax additional assurance work and from the National Audit Office, that there is a backward-looking

dimension in which HMRC along with Scottish Government asks what we are seeing in changes to, say, cross-border migration or whatever. An issue that arises is the time lag. The latest information that you are looking at is from 2023-24. Some of the more notable tax policy differences were coming in around then and the year after, which means that there may be a time lag until we know exactly what the impact has been in terms of behavioural change. Because it is such an important area and we know that some work is on-going, one of the issues that we are raising in the report is the need to continue that work, grow it and get the best information possible about the impact of taxes on behaviour. The Auditor General has pointed out that the impact may differ from decision to decision and based on a number of things, such as demographics, sectors and whether individuals are high earners.

Colin Beattie: In past meetings of this committee, we have discussed the impact of cross-border migration, but I understand—I do not know whether this is still the case—that we can count the number of bodies coming across but we cannot work out what the revenue from that is compared with the revenue from people going the other way, so we do not have a net figure for that. Is that still the case?

Stephen Boyle: I would need to refer back to the correspondence and the *Official Report* of the committee's evidence session with the Scottish Government and HMRC on those factors. I broadly agree with the point that you made earlier about HMRC's contribution. I am happy to correct this, but I think that there was not a lot of evidence to support either compliance risks or significant behavioural change as a result of Scottish income tax differentials from elsewhere in the UK but that HMRC was increasing its compliance activity. I would need to refer to the records and the evidence that the committee took, but I suspect that it is likely to be a fluid situation, which the Scottish Government and HMRC are better placed than Audit Scotland to advise the committee on.

Colin Beattie: If you decide to tax people's assets, that will reduce the income from those assets, so income tax will go down. That is logical. It is as if you are blocking yourself into a canyon.

Stephen Boyle: Your point illustrates the complexity: taxes are interconnected. The Scottish Government's tax strategy sets out its intention while recognising the interconnection and complexity of taxes, such as income tax, VAT and property taxes. How those strategies align with the economic strategies is what we sought to look at most closely in today's report, together with the recommendations for clarity, as Thomas Charman mentioned. Some of the detail of the next steps and the implications of that alignment will support

our better understanding and bridge some of the gaps.

Colin Beattie: Scotland is not the first country to be wrestling with its taxation policy and how to raise sufficient revenue to do what it needs to do. Are there any other countries that have handled it better? Have any other countries had better outcomes than we have?

Stephen Boyle: That would be for others to answer. We did not look to do an international comparison of taxes, whether reserved or devolved, as part of this audit. However, you are right that there are probably many examples of different jurisdictions, whether national or sub-national, that have made different tax choices, some of which may bring opportunities and risk. Whether there are opportunities to learn from other jurisdictions is something for Scottish Government officials and ministers to consider. It was not a feature of this audit.

The Convener: Thank you. We now have a final set of questions from Joe FitzPatrick.

Joe FitzPatrick (Dundee City West) (SNP): I will follow up on some of Colin Beattie's questions, which covered some areas I would have liked to go into—that has saved me a bit of time.

Your report includes a lot of tables that are very clearly labelled as modelling. Those tables are often taken as expressing fact by others, but that is not the case. You mentioned exhibit 10, which is very clearly labelled

“modelled impact of behavioural change”.

However, we can look at some of the facts. Just yesterday or today, we received the figures for population increase in Scotland last year. Last year, the population of Scotland went up to 5.55 million—the highest figure ever—and most of the migration came from the rest of the UK. So, we are now seeing that, when folk look at the whole basket of changes in taxation and other life changes, the behavioural change is that, on balance, people are choosing to move to Scotland.

That is there in the population figures, but it is not reflected in the modelling that we are seeing from others. That is fine, because I guess that, sometimes, there has to be a cautious approach, but when would we see those figures coming through into what that population increase has meant in terms of more people living and working in Scotland and Scotland having a higher employment rate than the rest of the UK? We have a challenge in that London and the south-east are different from everywhere else—they are effectively overheated—so, when we compare Scotland with the rest of the UK, we are actually really comparing Scotland with that overheated part of the rest of the UK.

Stephen Boyle: I hope that we have been clear in the report that it contains a combination of actual results and forecasts and that there are time lags. The committee will have seen the same thing over a number of years, particularly in evidence that you have taken from the Scottish Government and HMRC. Budgets rely heavily on forecasts and what comes in due course through in block grant adjustments, and the associated reconciliations can swing significantly. In recent times, we have had large positive reconciliations and very significant negative reconciliations, which we touch on in the report. All of that is bound by the fiscal framework between the two Governments.

You also mentioned other changes. I think that I touched earlier on how Scotland has set out different approaches to what devolution is about and has made different policy, spending and tax decisions. Through its tax strategy, the Scottish Government has set out plans for a progressive tax regime, and that has been reflected in the different bands.

On the point about the structural employment and earnings differences between the rest of the UK and Scotland, considering London and the south-east, I think back to the letter from the former director general of the Scottish exchequer, whose evidence talked about how, although the financial services industries are both well represented and strong contributors to economic and tax revenues in Scotland, especially in Edinburgh, salaries in the same industries in London and the south-east are significantly higher. Whether and how that situation could be overcome is part of the analysis that needs to be taken forward.

We understand the essence of the point that you make. I do not wish to repeat myself, Mr FitzPatrick, but there is complexity here, and forecasts will always be a feature of how many of these arrangements work.

Joe FitzPatrick: That is helpful. Your report is clear about where things are modelled or not, which is helpful, but I felt that that should be put on the record.

This is my final question. The recommendations at the start of the report are all about transparency. Have you had any response from the Government?

Stephen Boyle: For all our reports, the recommendations are fact checked with public bodies. Should the committee decide to take evidence from the Scottish Government, there will be an opportunity for the Government to put on record its formal response to the report. As with all our reports, we would then go into our follow-up process, take the opportunity to audit and, in due

course, report publicly on whether the recommendations were implemented as we set out.

Joe FitzPatrick: Okay. Thank you very much.

The Convener: We have time for one final question, and I am going to indulge the deputy convener.

Jamie Greene: Thank you, convener. This is one question in two parts. The first part is about the fiscal framework. In your view, is it fit for purpose? Secondly, there has, of late, been much conversation about whether people in Scotland pay more or less tax than people other parts of the UK, and it has been very difficult to get a straight, honest answer about that. It depends on whom you ask. We are trying to get to the bottom of it, being as neutral and politically independent as we can be, so that we, as an audit committee, have facts rather than conjecture. I still cannot answer that question, and I wonder whether you can.

10:45

Stephen Boyle: I will take those questions in reverse order, if I may. On who pays what in Scotland relative to other parts of the UK, I signpost the committee's attention to exhibit 5, which sets out for different income brackets whether Scottish taxpayers pay more or less. Of course, there are caveats around that, but it is drawn from the Scottish Government's own reporting on it. I am making generalisations—forgive me for that—but, broadly, it sets out that, up to around the £30,000 mark of income, you will pay less tax in Scotland and that, if you go above that mark, you will begin to pay more, although in quite small amounts at the start. As we have touched on already, that is the intention of the progressive tax regime in Scotland.

On your question about the fiscal framework, it is absolutely a matter for the Scottish Government and the UK Government, through their discussions—whether through the timetabled review for 2028 or earlier—to reach a view together about how the fiscal framework operates. You will have seen that, through the previous iteration, in 2023, there were changes to some of the different rates, the amounts that could be drawn down and the circumstances, with the application of limits being inflated through this iteration. So, we saw changes. It really comes down to the negotiations and the consensus between both Governments—it is not for me to say.

Jamie Greene: Thank you.

The Convener: That ends this very useful session. I take the opportunity to thank you again, Auditor General, for presenting that evidence and

producing the report. I also take the opportunity to thank Thomas Charman and Richard Robinson for their evidence this morning. We need to consider what our next steps are, and we will take a bit of time to look at that.

I will suspend the meeting to allow for a changeover of witnesses.

10:47

Meeting suspended.

10:52

On resuming—

“The 2023/24 audit of UHI Perth”

The Convener: I welcome people back to the Public Audit Committee. Agenda item 3 is further consideration of the 2023-24 audit of UHI Perth College. I am very pleased to welcome our three witnesses: Dr Margaret Cook, former principal and chief executive of the college; Graham Watson, former chair of the college board; and Iain Wishart, the former vice principal for operations. I think that you were all in post during the financial year in which the audit was conducted. We have a number of questions to put to you, but I give you the opportunity, before we get to those questions, to make some opening remarks.

Dr Margaret Cook (Former Principal and Chief Executive, UHI Perth): Thank you, convener, for allowing me to do that. For us, a very important point to make is that the structural position of UHI Perth within the University of the Highlands and Islands has an impact on the financial position of the college. From everything that I have seen and read, I do not think that there is any recognition of, or any information on, how that relationship works and the impact of that on the college. That is really what I want to explain to the committee this morning, with your permission.

We acknowledge the financial position of the college and of the sector. That has been well discussed at a number of your meetings and at meetings in other fora in the Parliament. However, we did not have a direct relationship with the Scottish Funding Council, because the regional strategic body is the University of the Highlands and Islands; therefore, our relationship was with the University of the Highlands and Islands.

The funding for UHI Perth comes through the University of the Highlands and Islands, and, as it comes through that process, it is top-sliced. The college receives 65 per cent of the income for its higher education students and 35 per cent of that income is top sliced by the university. For further education students, £2.5 million from the SFC is top-sliced and comes via UHI, and that £2.5 million is spread across all the academic partners in UHI. So, from a higher education perspective, depending on our student numbers each year, the university top-slices somewhere between £4.5 million and £5.5 million from UHI Perth. That has a big impact on the organisation and its ability to deliver, and that fact has been missing from discussions on the financial position of the college. I think that it is really important for this committee to understand that that is a major contributing factor to the financial position of the college.

Regrettably, students at UHI receive the lowest per capita funding in Scotland for both FE and HE, and that has an impact on the college itself, the students that we have, prospective students and the communities that we seek to serve. I feel very strongly that that is a really important piece of information for this committee to have in its consideration of how the college has dealt with the financial issues that it faces.

The Convener: Thank you for making that opening statement. That is now on the record. In the interests of openness, I should say that we expect to have an evidence session with UHI and the Scottish Funding Council, as well as with the new principal and chief executive, in the new year. Those are important points on the record that we will be able to put to them.

Before I turn to Mr Watson, to see whether he wants to add anything, do you accept the findings of the Audit Scotland section 22 report, Dr Cook?

Dr Cook: There is not quite a yes/no answer to that question. We did not prepare a budget in that year. However, that does not mean that we did not know what our financial position was. In December 2022, when—in Mr Wishart’s words recently—a red flag was raised, because all of our projections were very clear, we knew exactly what our financial position was going to be and what the forecast was going to be going forward. I defer to Mr Wishart to give you a more detailed answer about what we did at that point.

The Convener: Okay. We will get into that this morning. Are you saying that you do or you do not accept the findings and the recommendations in the section 22 report?

Dr Cook: As I say, it is not quite a yes/no answer.

The Convener: Okay. We will come on to some of the detail of that.

Dr Cook, I think that you mentioned this in your opening statement, but did you see the Auditor General’s evidence session at this committee on 8 October?

Dr Cook: I have read some of it. I did not see it and I have not read all of it.

The Convener: You have not read all of it. Which bits have you read?

Dr Cook: Sorry—I have not done this before. Yes, I have read the full report.

The Convener: Did you read the *Official Report*?

Dr Cook: It was circulated to us with the papers. Yes, I read it.

The Convener: That is fine. It is just that, in the course of this morning, we may turn to things that the Auditor General said.

Mr Watson, do you want to say anything at the outset?

Graham Watson (Former Chair of the Board, UHI Perth): Yes. I will pick up on the general sentiment from Dr Cook. I think it is extremely important for this committee to understand the context within which UHI Perth was, on a day-to-day basis, operating throughout the period in question. While I do not take issue with the nature of the Audit Scotland findings or, indeed, the Deloitte work—the background to it, the nature of the work that they were doing and the snapshot of a moment in time that it provides after the event—I think it is extremely important to get a full picture of the dynamics.

I am a chartered accountant of long experience, and there is some interesting background as to how I became the chair of UHI Perth. For eight years, I was on the court of Heriot-Watt University, and for eight years I chaired the finance committee of that organisation, which was turning over north of £300 million. For public accountability, I put on record that, throughout that period, I was also on the board—and was the chair—of the audit committee of the Scottish Futures Trust. So, I have a good understanding of the dynamics of publicly funded organisations. I certainly hope that, during the course of our evidence, we get the opportunity to talk about the environment in which UHI Perth was operating throughout the time that I was initially interim chair and subsequently chair.

The Convener: I wish to pick you up on your expression that this was just a snapshot in time. Given your professional background, do you recognise the point made in paragraph 18 of Audit Scotland's report that weaknesses in the financial team went back to 2018? Do you recognise that the annual audit report from Deloitte, the external auditors, said:

"In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves"?

That suggests to us that there was quite a systematic long-term problem.

11:00

Graham Watson: First, I think that the committee had in its previous session on the report a good discussion about the difference between internal audit and external audit, so I will not repeat that for the time being. In the context of work that was on-going, it is important to note that you are correct, convener, that prior to my time as chair, the financial position and the internal audit reports at UHI Perth were challenging. However,

throughout the period over which the committee has sight of the organisation, the work that was done internally—you will see it from internal audit reports—significantly reduced the number of issues to a relatively small number. The committee has already explored in some detail the challenges in how the finance function at the college was resourced, given the environment that it was in and the attractiveness—or otherwise—of the roles that needed to be filled.

Perhaps understanding some of that background gives the committee a context for why it was difficult to have the level of continuity and corporate knowledge of the organisation that would have been helpful in the overall context of work that was being carried out on the organisation. As was pointed out in the committee's previous discussion, during the year in question, eventually—there are a number of reasons why I used the word "eventually"—there was what those of us in the profession would call a clean audit opinion in the work that Deloitte carried out. For the board, that was an important factor to consider.

The Convener: Yes, but I do not think that any of us would accept that there was nothing to see here, Mr Watson.

Graham Watson: That is correct—there are certainly a number of issues to explore further.

The Convener: I will turn to you again, Dr Cook. Paragraph 4.8 of the UHI Perth financial regulations, which have an effective publication date of June 2021, says:

"The College Principal is responsible for the detailed administration of the College",

including various headings, which we can explore. One of them is that

"The College has a sound system of internal management and control, including an audit committee"

and

"an effective internal audit service."

It has been suggested to us that that did not exist.

Dr Cook: I am of the view that that did exist and continues to exist. What the audit has shown is a matter of a budget. Significant other controls were in place and significant other documentation went to the audit committee and to the board on the position that we were in at that time.

The Convener: That is not how the Auditor General viewed the situation when he gave evidence to us on 8 October, and we can return to that.

One of the things that have been reported is that, under your tenure as the principal and chief

executive, there were five different finance directors. Why was that?

Dr Cook: We struggled to recruit and retain a finance director. Some of those appointments were interim roles. Recruitment is often quite difficult, given the salaries that are paid in the sector. Perth's geographical location allows people to travel widely in Scotland, and it is quite difficult to recruit and retain finance staff—not just a finance director.

The Convener: We will get into more detail as the morning progresses. I invite Colin Beattie to put questions to you.

Colin Beattie: Obviously, I am going to ask about the absence of a 2023-24 budget. Paragraph 10 of the Auditor General's report says:

"Some initial work began in February 2023 to gather information for the budget. College management asked budget-holders to supply information to inform the preparation of a draft budget. The college is unable to explain what happened to that information and there is no evidence of it being collated or summarised."

I am not sure who might want to comment on that.

Iain Wishart (Former Vice Principal (Operations) UHI Perth): I can comment. I do not recollect any gathering of information in February 2023. We were not going to kick off a normal budget cycle because, in December 2022, we produced a forecast for three years that showed that we would potentially have a £2 million operating loss in 2023-24. Solving that would mean looking at staff numbers, because staffing made up more than 75 per cent of our costs. The resource was focused on finding a solution for that problem.

A budget is a plan, so you need to know what your plan is to solve the problem. There was no kick-off of a budget, because we already knew what the problem was and we had to spend time working on whether we were going to lose heads here or there and whether we were not going to spend on this or on that. That work took us into union consultation, so a lot of time from February to April 2023 was spent on looking at how we might solve the problem.

We did not go into a normal budget cycle, because a budget is a plan. You need to know what your plan is to get back to break-even so that you can make a budget for that and measure yourself against it. I do not recollect any gathering of information in the initial phase because, if we had just done a budget roll-up, it would have come to a £2 million deficit.

Colin Beattie: Will you describe that a bit more for me? I would have thought that you needed a budget to understand what your deficit would be and to determine how to plug that gap.

Iain Wishart: No—that is done by creating a financial forecast. A forecast shows what is likely to happen on the basis of all the information that you have. We had information at the end of 2022, when we heard the terminology "flat cash" for the first time, which meant that there would be no increase in funding. We knew that our HE numbers were down, which meant that figures would be not flat but down. At the same time, salary increases were being negotiated for a two-year deal of about 9 per cent. Back in 2022, we were able to forecast for three years—the year that we were in, 2023-24 and 2024-25—so we did not need a budget to tell us the position; we knew what was going to happen from forecasting exercises.

That was when the red flag was raised to the board of management and senior college staff to say that we had a really unprecedented situation and we would have to find a solution. If we had gone into a four-month budget exercise, it would have rolled up at that figure and told us that in May. We already knew the number and what the problem was back in December 2022.

Colin Beattie: I have been involved in many budget processes. The process of putting the budget together and of individuals who hold part of that budget putting in their input sometimes throws out unexpected things that can be incorporated into the budget. You see what your bottom line will be and you determine what you need to do to adjust that to where you need to be.

Iain Wishart: As I said, we already knew what was going to happen. You will remember that 75 per cent-plus of our costs were from staff, so unless any departments said that they would cut their department in half—nobody does that—the budget was going to roll up to a £2 million deficit, and we would have known that five months later. In December 2022, we already knew and the board already knew why that was going to happen and what was going to happen. The urgent focus had to be on how we were going to solve the problem. We did not have to run a budget to tell us what we already knew from forecasts.

Colin Beattie: You are saying that the budget was not produced because, on the basis of your forecasts, you knew where you were going to be, and you had commenced negotiations with unions and so on because staff are one of the most expensive components.

Iain Wishart: Yes. A budget is your plan—what you would like to happen. We had to work out what we would like to happen, which was to get back to break even. What was the plan to do that and where would we cut costs? It was only costs that we had to cut and, with a £2 million deficit and 75 per cent of costs coming from staff, there would be staff impacts. That never evolved into a

budget—a plan—because we could not get to the point of the plan.

I will give you an idea of some of the difficulties in achieving that. Today, in December 2025, those involved are still finding the solutions and actions are still happening. Some people left just last week, which was part of trying to find a solution. Finding a solution was not a straightforward exercise but, if you do not have a clear plan, you cannot budget for that plan.

Colin Beattie: The process was in place over the first several months of 2023. Did it come to any conclusion, as far as you were concerned?

Iain Wishart: No. From our perspective, we went into different exercises and various union consultations. We tried to take out one of our loss areas in the college, which was our nursery. When we went to speak to nursery staff, we were met by ITV cameras, the press and a group outside saying that that was not what they wanted to happen.

Each time we tried to look at something or do things, that was met quite strongly with people saying that they did not want that to happen. We were trying to do things. Several months into negotiations with the unions, they said that we had to do direct staff consultation, so we had to devise a way to get all the staff input. The cycle of finding a solution kept rolling on.

The board and senior management did not have just a forecast in December. When we met the finance committee or the board every quarter, we revised the forecast to see whether it was still looking like a £2 million loss, and the answer was that it was. People still had the management books that showed actual spend from the previous year against actual spend for this year, and we linked any variances back to the forecast.

Everybody was aware—the SFC was aware, UHI was aware, staff were aware and the board was aware. From a board and senior management point of view, that was from December 2022.

Colin Beattie: Another quite important point in the Auditor General's report is where it states:

"The board's view on the absence of a budget is not documented in the minutes of relevant meetings."

Is that correct?

Iain Wishart: Yes. From our perspective—I will let Graham Watson talk about the board perspective—all the focus was on the problem and how we were going to solve it. At no point did anyone say, "Let's not do a budget". If we had found a solution in three months, we would have tried to budget for that. If we had found the solution in four months, again we would have tried to budget for it. Six months after the start of that

particular year, we still had not found a solution, so we could not construct a budget because there was no plan. The work was still about trying to find solutions to the problem.

Colin Beattie: But surely the board would have been apprised of the situation, because a budget is quite an important thing. Surely it would have wanted to be informed and briefed about it, and papers would have been minuted. Did that happen? The Auditor General says that it did not.

11:15

Graham Watson: The picture that Iain Wishart helpfully paints is that, from a board point of view, it was evident from December 2022 that, under any normal description of a business, UHI Perth was not a going concern.

We were faced with the likelihood of a £2 million deficit, which is what the deficit turned out to be, broadly speaking, after the audit, with nowhere to go to get the money. We were running out of cash and, as Iain Wishart has pointed out, the board and the executive team were focused on ensuring that we did not run out of cash. UHI was not offering us any cash—it never did during my tenure. The SFC has offered cash, in the form of, effectively, short-term advances of future funding.

The reality of the underlying business at that point, in December 2022, was that it was not viable. That is why the focus of the board in directing the operations of the finance function through the principal was on asking, "How do we bring this business back quickly, if we can, into a break-even situation?" As directors, at some point during every year, we were asked to sign a set of accounts that said, "Looking forward for 12 to 18 months, the organisation is a going concern." We were not in a position to do that. We had no certainty around who was going to provide the cash to meet the cash deficit that Iain Wishart and his team were projecting. That was the emphasis of all the work during that period, and that was communicated, including to UHI in relation to our voluntary redundancy programme. Early in 2023, after the £2 million deficit became evident, it was reported through UHI to the SFC.

We needed to take costs out of the business, and we needed to do that quickly because otherwise the organisation was going to run out of money. The focus of everyone was on cash. Information about profit and loss and profit and balance sheet snapshots in time are very helpful. Indeed, they are fundamentally important to the running of any business—I well understand that, as I am sure you can appreciate. However, when you are in a crisis management situation, as we were, all that matters is cash.

This is where perspective is important. Why did I become interim chairman? I became interim chair of the organisation because, for whatever reason, UHI did not want to reappoint the previous chair, who had been very articulate and very vocal about the challenges facing UHI Perth and how it sat, and still sits, within the financial challenge facing UHI as an institution. When you speak to the UHI people, you will see the scale of the financial challenge facing UHI. I think that it is unfortunate—it is worth putting this on record; I made the same point when I was chair through the UHI channels—that UHI, with all the influence and all the effective levers of control that it exercises with its regional strategic body status and as the recipient of higher education funding, did not, and still does not, produce consolidated accounts. You cannot see the scale of the challenge and the problem within UHI as an institution. UHI Perth was one element of that.

Another area that I think is very important for the committee to understand is that, throughout this period, the two colleges that were most vocal in their challenge to UHI were UHI Inverness and UHI Perth. Through the course of the work that you are doing, it is perhaps worth trying to understand a little bit more about why the chairs of those two colleges—myself and the chair of UHI Inverness—both chose to resign.

Colin Beattie: Let us look at this from a governance point of view. From what you are saying, the board was aware of the difficulties. Did any board members challenge the situation and the fact that there was no budget?

Graham Watson: Absolutely. The board of UHI Perth was at that time a strong and diverse board, with people from very different backgrounds, whether it be in education, business or commerce. In the work that has been done on the review of governance, you can see comments around the quality of the board and the leadership, and of the governance that was applied. I do not know whether you have had sight of that. As an institution, we went through a regular cycle of corporate governance reviews that were conducted by an independent organisation, as is required for a publicly funded body. If you are able to acquire the documented evidence, I think that you will find that it supports the contention that this board was a robust and challenging board that sought solutions, rather than just seeking to pile pressure on the executive team, who were already under enormous pressure.

Having announced a redundancy programme in June 2023, in an ideal world, we would have said to Margaret Cook and her team, “Go out and spend whatever money you need to spend to get the right level of resource within the finance function”, given that, as has been pointed out, that

function was probably not where it needed to be. In theory, that would have been a great thing to do. Of course, in practice, with academic staff facing redundancy, suddenly spending large sums of money on your professional services team is probably not something that will be particularly well received. The board was walking a tightrope throughout that period, making sure that governance was strong, that we would not run out of cash, and that we had the evidence to support the actions that needed to be taken to take cost out of the business. As Iain Wishart pointed out, when so much of your cost is staff, there are very few levers that you can pull.

I do not think that you have seen this evidence, but I wrote to the chair of UHI in December 2024—I copied my letter to the chair of the SFC—about the picture that, looking forward, we were seeing at that time. It was the same picture of deficits and no ability to fund our way forward. I made it clear that the board of UHI Perth did not want to go through a compulsory redundancy process. However, critically, I asked the UHI, which holds the purse strings and is in receipt of the funding, to give us guidance. In order to fix the problem, I asked it where we needed to take cost out of the business or quickly increase revenues. I asked, “In your discussions with the SFC, tell us to make compulsory redundancies if that is what you want us to do, although we don’t agree that that is the solution. If that is not what you want us to do, lend us money to cover the deficits. Alternatively, tell us to make a lower level of compulsory redundancies and lend us less money. Finally, reduce the top slice that you retain.”

That final point is the key point that Margaret Cook alluded to at the very start of our session here today. You have to understand what the top slice is doing—what it is used for—and whether that represents value for money to the students and staff of UHI Perth. That is what our board was challenged with doing, and that is why the previous chair, whose appointment was not renewed, and I as chair were focused on how we could work towards getting UHI fixed, if possible, so that the top slice could be reduced. If the top slice had not been at the level that Margaret Cook said that it was at, we would not have had a £2 million deficit. We would not have been in a crisis management situation, worried about running out of cash. We were faced with a cash-flow position that, quarter to quarter, was critical. We had pay awards coming through that were backdated—they had eventually been agreed, so there was a big backlog of payments to make. Over a period of 12 months or 24 months, your cash might seem in place, but if it is not in place quarter to quarter or month to month, you cannot pay salaries.

It was a very challenging position, and you have to understand it. That is why I made my earlier

point. I absolutely agree with the importance of external audit and the work that Deloitte and Audit Scotland do and did. I am not wishing to challenge that in any way—it is absolutely essential to good governance. However, you have to recognise what that work does. It looks back—the auditors are not necessarily in the room as these crisis issues are unfolding.

Colin Beattie: Mr Watson, you have painted a picture of an active board, a board that is alert to and aware of the situation, and a board that understands the issues around the budget and has apparently had discussions on it. Yet there is no real evidence of that from a governance point of view. There is nothing in the minutes. What evidence is there that the board was on top of the job?

Graham Watson: If you look at my letter—this is subsequent to events—of 20 December 2024, you will see what the board was discussing then. If you look at the communications with the principal of UHI in June 2023 about the voluntary redundancy scheme, you will get evidence of the communications.

One of the things that I instituted when I took on the chair role was to ensure that I invited the chair of UHI to all our board meetings. The chair of UHI had access to all our board papers as an observer. He was very active in attending, which was helpful. He came to most of the board meetings. It is very hard to say that the knowledge of the picture that Iain Wishart painted from December 2022 was not well understood within the broader UHI family. We were not seeking to withhold information. At no stage were the board or the audit committee of UHI Perth saying, “You are not giving us the right information,” or, “We are sceptical of the complexity or the completeness of the information.” That never happened. We were getting the information and taking action on that information.

Colin Beattie: Did the board make a decision to defer the budget?

Graham Watson: The board made a decision to focus on sorting the cash position out in the way that Iain Wishart has described, and he has described why we did what we did.

Colin Beattie: Is it specifically minuted that the budget was being deferred in order that those steps could be taken?

Graham Watson: I cannot answer that question. I do not have the minutes in front of me.

Colin Beattie: Okay. Thank you, convener.

The Convener: I will bring in Joe FitzPatrick in a second, but can I just take you back, Mr Watson, to some of the fundamentals here? When we took

evidence from the Auditor General on 8 October, he said:

“I ... cannot recall, from my time in this role and during my career of auditing public bodies in Scotland, an organisation that has not prepared an annual budget.”

In your time—in your career—Mr Watson, have you ever been part of an organisation that has not prepared an annual budget?

Graham Watson: I have been part of an organisation that had such a disaster with a massive IT implementation scheme that it was unable to prepare one. It did not have the information, so it had to work off prior-year accounts and the fact that, as in this case, the vast majority of its costs were salary costs. As long as you know what your salary bill should be, which is what is going out of the account every week or month, you can be relatively assured that the overall picture will not be massively different.

Again, I absolutely agree that, in an ideal world, you have all this information and you spend time preparing budgets and forecasts. However, as Iain Wishart has alluded to, that was not the important thing to do here. I think that he made the decisions that we as a board supported very explicit in his earlier comments.

The Convener: We are the Public Audit Committee and we are not talking here about an ideal world; we are talking about a world where there is some accountability. Even your own document, the June 2021 UHI Perth financial regulations, which I presume was signed off by the board, says that the very first responsibility of the finance director—it is bullet point 1—is

“preparing annual budgets and financial plans”.

Iain Wishart: The financial plan is a forecast. That was done, and everybody knew what was going on. The budget can only be done when you have the plan, but the budget is a plan of what you would like to happen in the organisation. What was going to happen in the organisation was a £2 million deficit. What was our plan to make that not happen? Then you bake that into a budget, so that your budget will roll up at break even. We were focused on working out that plan.

On the comments from the Auditor General, I spent most of my career on the private side, and we spent most of our time working from forecasts, not budgets. Yes, we created budgets, but the solution on the private side to a situation such as the one that we were looking at in UHI Perth would have been to deal with it very quickly. There are different rules in play as to how you would solve it. On the private side, you would solve such a problem within a month or two months, and then you would be able to budget. We did not have the solution to budget for.

11:30

The Convener: We are talking about an organisation that is governed by the Public Finance and Accountability (Scotland) Act 2000 and is subject to the Scottish public finance manual. We are not talking about a private enterprise. We are talking about public money, which is why we expect certain standards to be met.

The Auditor General said:

“a budget gives an organisation an anchor with which to measure how it is progressing during the year.”

Margaret Cook, do you not accept that that is a fact?

Dr Cook: We had reporting of our financial position, as Iain Wishart has outlined, to every audit committee meeting and every board meeting, and we discussed it as management teams.

The Convener: This is my final question before I bring in other members of the committee.

I would be interested in your view on the Auditor General’s comment:

“we cannot help but conclude that that”

budget’s

“absence must have been a significant factor in the board of management being less able to control financial arrangements during that time.”—[*Official Report, Public Audit Committee*, 8 October 2025; c 5, 6, 2.]

You are shaking your head, Mr Wishart. I take it that you do not agree with that view.

Iain Wishart: We have tried to outline that everybody knew what was going on without a budget. Everybody here has said that: the SFC knew what was going on, and UHI knew what was going on, without a budget because we used financial forecasts.

A budget and a financial forecast are future projections, but they are different things. A budget is your plan of what you want to happen. As I said at the start, you need to know for your budget where the costs are coming out. You cannot construct a budget unless you know that. You need to be able to tell department managers, “You have 10 heads—only budget for seven. You have this amount—you only budget for two.” The whole solution has to be in place before you can create a budget.

On the Auditor General’s comment that you just quoted, convener, we have said several times, and the board has agreed, that everybody knew exactly what was going to happen in December 2022 without a budget.

The Convener: Okay, but my point is that you have set aside your own financial regulations, both

in your position and the position of the former principal and chief executive. I would also suggest that the people on the board have set aside their obligations under those financial regulations.

I will invite Joe FitzPatrick to come in on this budget question, before I invite Graham Simpson to ask his questions.

Joe FitzPatrick: Thank you, convener—you have covered a lot of what I was wanting to cover.

I am finding it incredibly difficult to grasp, in terms of governance, how all three of you could think that it is okay that there was not a budget. A budget is not just an ideal circumstance; it is something to work to, and it is about transparency. If there had been a budget that was clear on what you were doing to reduce the deficit but that there would still be a deficit, at least there would have been that transparency. At least you would have been working to something that was in line with the financial regulations that you are covered by. Is it honestly the case that nobody on the board thought there was anything wrong, and that nobody said, “Wait a minute, we have not done the budget”? Really?

Dr Cook: We had many discussions on the board about the financial position of the college. Presumably we would not be here if not for the fact that there was no budget, but the crux is that we felt that what we were doing was giving that absolute transparency to our board, the SFC and UHI in our forecasting work. We have all been very clear that that was discussed extensively in all the forums, and the issue was not raised—no one from UHI or SFC ever said to me, “You do not have a budget.”

Joe FitzPatrick: You all had a legal responsibility.

Dr Cook: I am not disputing that. We were satisfied with the level of information that we were giving to our board, and our board was satisfied with that level of information because it was very thorough, it was forward looking, and it was the basis on which we were managing the college in the state of crisis that Mr Watson has referred to.

Joe FitzPatrick: It still sounds pretty incredible that you did not put something down on paper as an actual budget.

Dr Cook: All the forecasting was done on paper. As they went through committee stage, all of those documents exist. That is all there.

Joe FitzPatrick: Iain Wishart talked about how difficult things were, and I get it, but you were faced with calculations saying that there is such a big deficit. Not to put that down and create a budget that tries to reduce that deficit is incredible. Iain, you talked about having to consult. Surely that should have been started in 2022 when you

started realising that there was a deficit, and I guess that that is when you should have been starting to prepare the budget in order to square it.

Graham Watson: We are slightly talking in semantics here. The board, UHI and the SFC knew that we were running out of cash. We could not produce a break-even budget at that stage; we knew that there would be a deficit budget. Our job was not to produce a deficit budget. Our job, as a board in receipt of public funding, was to produce a break-even budget, and we could not do that unless we focused on taking cost out of the business.

The whole effort during the early part of 2023 and throughout—it is an on-going challenge for UHI Perth—has been to take cost out of the business without completely destroying its ability to deliver education to students. There were things that we had to do. We had to pare back significantly on maintenance, but then what happened earlier in 2025, for example, was that the main lift in the building broke, which is £100,000 that had not been budgeted for.

We were working in a situation where cash is all that matters—it really was. The cash flow forecast that we had was guiding the decisions. In the previous minutes, you had evidence of the workstreams that were going on, and there were workstreams to look at where we could reposition the curriculum and how we could make better use of our buildings. There were a multitude of decisions taken under the principal's leadership that were designed to save cost without destroying the student experience.

That is not a great place to be, and I admit that. If anyone on this committee thinks that it is an exciting job to be asked to take on the chair of a college on a completely voluntary basis, when virtually all the levers of control are taken away and you are faced with running out of money, let me make it clear that that is not a great job advert. We as a board exercised our responsibilities as diligently as we could, and we eventually delivered an outturn.

Responsibility for the delayed audit was not wholly attributable to the management. It did not come through particularly clearly in your previous evidence session, but there is plenty of correspondence on the shared responsibility for the delay in the 2023-24 audit. The audit produced a clean audit opinion that said, "The outturn was broadly what you said it would be with the cost savings." Obviously, going through a big cost-saving programme and 75 per cent of costs are staff, there is an up-front cost designed to reduce cost in the longer term. We were taking decisions to spend more money to be able ultimately to save money in a way that continues to deliver a student experience in Perth.

Joe FitzPatrick: Convener, I do not think any of us has been suggesting that this is easy to do, but I think Mr Watson has articulated why a budget would have been so important.

The Convener: Thank you very much. Graham Simpson has some questions as well.

Graham Simpson: Following up that issue, Mr Watson, I note that board papers show members discussing the possibility of agreeing a deficit budget, and UHI saying that that was an option and that it would discuss it with the SFC. Did that happen?

Graham Watson: We continued to discuss that possibility. Again, when we got to December 2024, we approved a deficit budget running forward, but that is where the position was so difficult. In December 2024, we were looking at a deficit budget of £1.25 million for 2024-25, a deficit budget of £750,000 for the following year, and then £1.25 million for the year after that.

The recurring theme here is that, even with all our efforts as a board and a management team to take costs out of the business, UHI Perth was not viable under UHI's current structure. I, as a director, am not going to sign an audit report that suggests that an organisation is a going concern when I do not think that it is. At no stage was there enough evidence for me as a director to say, "Someone is going to lend you money, reduce the cost burden significantly, or make an investment in you that will provide enough cash to avoid your running out of money."

I know that we are digressing a little bit here, but I think the UHI model is fundamental to where this whole discussion should be going. The model of UHI—indeed, the model of funding colleges in Scotland—is not broken yet, but it is in grave danger of being broken. You cannot continue to run a business in which 75 per cent of your costs are staff if those costs are continuing to increase but your ability to generate matching income does not exist.

As far as this problem is concerned, I accept all the discussion that is being had—and, again, I am not arguing with Audit Scotland's work, which I always find very comprehensive and thorough—but I think that you have to understand the bigger picture, and I am glad to have the opportunity to have a little discussion about that this morning. This is a massively challenging position to be in, and in December 2024, UHI Perth was definitely not out of the hole.

Graham Simpson: Why did you not produce a deficit budget?

Graham Watson: That is not what we are asked to do. We are asked to manage the business on a break-even basis—

Graham Simpson: But you discussed it.

Graham Watson: We took the view that producing a deficit budget when you do not know how the deficit will be funded is not particularly good governance. That just tells you, “We’re going to run out of money.” Instead, you need to ask, “How do we get to a break-even budget? How do we get to a position where we will not run out of money?” and then take the decisions that are necessary to enable you to remain viable.

That is what UHI Perth tried to do throughout this period. I am sure that Margaret Cook will have the detailed numbers, but significant costs were taken out of the business, and it was still not enough. Part of the reason for that is, as Margaret said at the start, the top slice that goes to UHI, and which UHI Perth has no ability to negotiate. That is massively problematic. There is certainly correspondence between other colleges within UHI and UHI on the same subject, so it is not a UHI Perth-alone problem, but a structural problem of the institution itself. When I decided to resign, it was in discussions with the SFC about how to fix that position, because as an institution, it was not, without doing something dramatic, going to be viable in the longer term.

11:45

Graham Simpson: But this is not the only college that is facing financial difficulties. The committee has heard compelling evidence from the sector about the state of the college sector in Scotland. Perth is not the only college to face these challenges, but every other college manages to produce a budget.

We have had evidence from Colleges Scotland outlining the position going forward, and stating that if there were, say, a flat-cash settlement, a number of colleges could go under. The college sector is in a dire state. This is not the only college that is having problems, but you are the only college that somehow managed not to produce a budget.

What I am trying to get at is this: why were you unique in not being able to produce a budget when all the other colleges, with all the challenges that they were facing, managed to do so?

Graham Watson: We produced cash-flow forecasts. Iain Wishart has already gone through what we did, how we were transparent and how we knew the severity of the position. I do not think that every other college in Scotland has a top slice to pay, so their situation might be a little different from Perth’s.

If we look at the evidence from the audit committee, the finance committee and the board—and every board meeting was attended by the UHI

chair—we see that at no stage did any of these directors or external observers say, “You are not doing or prioritising the right things. You have a cash-flow forecast that shows, effectively, that you will run out of money. You need to fix that.” We were focused as a board on trying to give the management team the challenge and the support to come up with plans to try to address what was a terminal position.

Graham Simpson: Mr Watson and Dr Cook, you have both outlined what you see as the perceived problems with the funding arrangement for Perth college. Has the situation changed since you left, or is it still the same? If it is still the same, how would you fix it?

Dr Cook: I was in post for eight years; a number of iterations of changes were proposed during that time, and each and every one of those changes failed. There is a lot of acceptance within UHI that change was absolutely necessary, because of the sustainability issues that Graham Watson has outlined, but the reality is that, when you try to change things, you will, as in all such change situations, have winners and losers. You find yourself sitting around a table with a number of independent bodies that are voluntarily—potentially—giving up certain things for their own communities and students. It is a very difficult position to be in. Huge amounts of work have been done by all the UHI institutions to try to make those changes, and they have come to nothing.

I cannot comment on what has happened since I left—I have not kept in touch with what is going on—but I personally, my team and the teams across the partnership have done huge amounts of work over the years to try to get to a position that is sustainable for all the institutions. There have been many discussions about having a single institution, instead of the independent institutions that we all are, and there have been discussions on shared services; indeed, I led those discussions. There has been a huge amount of work, but it has not reached a conclusion that would make UHI more sustainable.

Graham Simpson: Okay.

A number of people have left the college, including all of you. In fact, five members of the board, including the chair, resigned between April and May 2025, which is quite a turnover. Perhaps I can go to you first, Mr Watson, because I think that you might want to tell us why you resigned.

Graham Watson: Yes, I am very happy to do so.

Part of it goes back to the previous chair. As I found out, the reasons why, ultimately, he was not reappointed were of a very similar nature—they were about the relationship that existed between UHI Perth and UHI. I felt that I had got to a stage

where, as chair, and with all the responsibilities of chairing the organisation, I was completely constrained by what could be done by UHI. There is no point in chairing an organisation when the real influence and power is somewhere else—that is, in UHI. The work that has been going on to try to fix UHI, and the control that it was, at that time, seeking to have over the colleges, is indicative of that. Despite the minister having articulated in a letter to the principals that the future of UHI should be guided by the colleges, in discussion with UHI, the reverse was actually happening.

You might also want to explore why the chair of UHI Inverness resigned—they resigned earlier than I did. Eventually, if you are chairing an organisation, you want to feel that you have the levers and ability to chair in an effective manner. I obviously did not feel that at the time, so I took the view that enough was enough.

Again, as I have said, I am a volunteer. I am not doing this because someone is paying me large sums of money. If you look at the independent review of our governance, you will see the comments that were made about the leadership of the organisation, and I was not going to have my integrity and reputation damaged any further than I thought that they were being damaged at that particular juncture.

I cannot speak for other directors, but I assume some of the other directors who resigned must have felt similarly.

Graham Simpson: So, in summary, you felt that UHI exerted too much control over UHI Perth, and you wanted a bit more freedom. Shall we put it that way?

Graham Watson: I will answer that for you, Mr Simpson. I was very disappointed at what happened when I wrote in very explicit terms in December 2024 to the chair of UHI, with a copy to the chair of the SFC, saying that we were supportive of the principal's work in delivering the recovery plan. I said in that letter:

“The cash position of UHI Perth has been supported recently by £1.5m of long-term, interest free, liquidity funding from the ... (SFC). It is unlikely that any of the substantive recommendations to be contained in the Recovery Plan will provide a ‘quick fix’ to the continued deficits currently projected, especially given the scale of risk surrounding the budget and outer two-year projections.

Accordingly, in the view of the UHI Perth Board”—

which at that point had its hands so firmly tied behind its back that it could not do anything—

“it is inevitable that UHI Perth will require some form of additional short to medium term support from the SFC to remain solvent and a going concern.

To complete the Recovery Plan, the Board therefore requests that the ... (RSB)—

that is, UHI—

“urgently seeks direction from the SFC on support options for UHI Perth.”

We then outlined some options that might exist.

There was no formal reply from UHI to that letter other than to say, “We cannot give you any direction”, and there was nothing from the SFC. You set out the position and the problems, all of which are well understood by the board of UHI Perth; you ask for help; you say, “We need to fix the fact that we are—or are about to be—insolvent”; and no one steps in to give assistance. Well, with all due respect, I was not going to stay on as chair of an organisation in that situation—it was too bleak.

I am sure that the SFC will find ways, as it did at that time, of continuing to give some additional liquidity funding. However, it was just money being moved from perhaps a future pot in order to help out; it was not going to fix the root cause of the problem.

At the end of the day, I took the view that I had tried my best. The previous chair, as I have said, had left, because UHI did not want to renew his term of office, and I stepped in as interim chair for a period before becoming chair. I had done as much as I felt I could reasonably do in the circumstances.

Graham Simpson: Okay—that was pretty clear. I shall leave it there, convener.

The Convener: Mr Watson, would you be willing to give us a copy of that December 2024 letter and for it to be placed in the public domain? Also, did you write that letter on behalf of the whole board, or was it a personal letter?

Graham Watson: The letter states:

“Further to the UHI Perth Board Meeting held on 18 December 2024”—

that is, two days earlier—

“which you”—

that is, the chair of UHI—

“attended as an observer, I wanted to confirm the Board's position on its forward financial outlook.”

The Convener: Thank you. That is helpful.

Graham Watson: Before I sent the letter, it was in draft form and the secretary made sure that the board was comfortable with it. I am happy to put it on record.

The Convener: That is very helpful.

My last question on that is: why did it take you six months to resign, if that was such a critical point?

Graham Watson: It did not take me six months. I think that it took me until about April 2025, and I wrote the letter in December 2024. With threats of resignation, you cannot continue to say, “If you do not do this, I am going to resign,” and not do it.

We have not touched on this yet, but there is history behind why I was the one who was put forward. As it happened, I was also chair of Air Service Training, which was difficult, as you covered in your previous evidence session. Without labouring that point, that is a classic example of some of the challenges that we faced.

AST was a fantastic little business in Scone, near Perth, with a tremendous history and a fantastic market opportunity in front of it in training aircraft mechanics, but it did not have any cash. There were reasons why it was running out of cash that were fixable. UHI Perth, as its owner, was not able or allowed to invest in that business, which was its subsidiary. I kept saying to UHI, “We should look at how we can sort out that business, because it is a great little business.” There was no support for that.

I was not only trying to deal with the UHI Perth issues and helping UHI with its plans or attempts to plan a future strategy; I was also volunteering to help AST. That all became quite difficult. As I said, AST was a tragedy and it should not have been allowed to go, but UHI Perth was not able and was not allowed, under the regulations, to invest in it.

I resigned from UHI Perth, but I was the UHI Perth representative on the board of AST and I said at the time of my resignation from UHI Perth that I was willing to stay on as the chair of AST, because it was heading towards an insolvency process, if that was the wish of UHI Perth or UHI. I never received any response to that suggestion, and therefore I also resigned from AST.

The Convener: You might not know it, but that has neatly teed up the deputy convener, who has questions on AST as well as broader questions, which I am sure that he will want to put not just to you, Mr Watson, but to Dr Cook and Mr Wishart.

Jamie Greene: Good morning—it is just about still morning.

Mr Watson, you have just answered my question on AST, so there is not much to add. What happened at AST is clear. It had a future in a market that is booming and growing in Scotland and across the world. It should have been supported by as many parts of the public sector as possible but, due to its structural arrangements, it was simply unable to stay solvent. That is my summary.

Graham Watson: Dr Cook can comment on this but, towards the end, we were trying to find solutions within Scotland—for example, with

Ayrshire—and through political channels. There were very tight timescales, because the position was not great. AST was being managed on a knife edge, because there was no ability to invest in it. That was a tragedy. We were looking at foreign partners.

That goes back to the point that the UHI model, in my mind, had flaws. For no charge, AST spent a considerable amount of senior management time on trying to help UHI Moray with the growth deal that was designed to produce a big partnership with Boeing up in Moray, because we all believed in that as a part of the UHI model. For whatever reason, UHI eventually pulled the plug on that deal—I think that it was partly because of things that were going on within Boeing. AST, having spent tens of thousands of pounds of unpaid senior management time on that to help, at the cost of being unable to run the day-to-day business, received no recompense at all for that.

That is an example of how I felt throughout the period. On critical issues, UHI Perth was being left largely on its own, and the same applies to AST.

12:00

Jamie Greene: The committee has looked a lot at the diversification of the college sector and its involvement with private or quasi-private companies or entities as a means of supporting business and skills in local communities and of generating revenue. We have considered whether there is an inherent conflict of interest between a college’s core function—delivering courses on a credit system for the SFC—and partnerships with third parties, such as the business sector, including big companies such as Boeing. We see examples of that across the country, some of which have not gone terribly well and have ended up in exactly the same situation as AST. Is there an inherent problem with that model? Alternatively, could it be developed if it was done properly?

Graham Watson: I would definitely say the latter. AST was training and there were partnerships with UHI Perth for the degree course. It was a massive contributor to an important part of our future-looking HE model. However, as with any business, it needed to be properly capitalised. AST was never properly capitalised. It relied on winning contracts on a month-to-month or cycle-to-cycle basis, and if there were blips in business development and it did not win a new contract, there was no one else providing cash.

If you capitalise a business properly and set it up properly, with the right management and the right synergies with your college, it should be an enormously productive and profitable partnership, in the same way as colleges and industry are at

the heart of generating economic growth in Scotland. It is a vital collaboration and partnership.

That is why, as I say, I was really disappointed that AST was allowed to shut. There was opportunity to save it, but that required people to take decisions very quickly. Unfortunately—you might share this view—as someone who has private sector as well as public sector experience, I know that sometimes in the public sector it is difficult to take quick decisions. That was a bit of an issue with AST. It was a sad demise of a business that had been an important contributor to the local economy for 100 years or whatever.

Jamie Greene: Indeed. As I said at the beginning, it was in a sector that Scotland could benefit from massively if it was to grow and be invested in.

I will move on. You have had your fair share of questions this morning about what happened on the budget, so there is no merit in rehashing any of that. I believe that you have answered as openly and frankly as you can in the circumstances. I am not yet 100 per cent convinced that I see appropriate levels of contrition, but I understand the circumstances that you have been in. I also understand the circumstances of the college financially and the wider sector, all of which I believe are perhaps mitigating factors in what happened and the need for a section 22 report.

Nonetheless, it is very unusual for Audit Scotland to produce a report of this nature. It is quite a short report. I do not mean this in any combative way, Dr Cook, but, at the beginning, you were asked a very straightforward question about whether you accept the content of the report. There are only 41 paragraphs and nine pages, so it is not the biggest report that the committee has considered. The answer to that question really is yes or no. If the answer is yes—that you accept all of it—that is fine. If the answer is no—that you accept none of it—that is equally fine. If you are somewhere in the middle, what I want to know is: which bits of it do you not accept?

Dr Cook: When I came into the meeting, I was incredibly nervous, and there had been some communication about my attendance at the committee. Having settled slightly more into the process, which is completely new to me, I apologise to the committee if I have appeared not to be honest; that was not my intention at all. We accept that there was no budget—that is clear. I was not trying to say that we do not accept that. I think there are shades within the report to do with how it is expressed in some respects. However, fundamentally, there was no budget. We consider that what we did was appropriate. If that is not the case, I can only apologise, as the accountable officer, that that was not the case.

As I say, I apologise for my uncertainty in this environment when I came in.

Jamie Greene: I am not reflecting on anything that was said at the beginning; I am just reflecting on the fact that, for whatever reason, you could not genuinely accept the 41 paragraphs in the report. I was trying to unearth which elements of the report you felt do not reflect the true nature of what happened and what was going on. During the meeting, you have listed quite a lot of background that is not in the report—I say that with no disrespect to the Auditor General.

I should also say that we often have reports of this nature across quite a wide range of sectors and public sector bodies, and we have invited former members of staff and board chairs to appear, but they have not done so. The fact that you are here speaks volumes, and I would like to thank you for that.

However, there are one or two unanswered questions. Those are around signing off the accounts and, presumably, what would have been the signing off of a budget, had it been produced. Mr Watson, you said that you, as a director, could not and would not sign off UHI Perth as a going concern, because at the time it simply was not. Did you sign off the accounts in that financial year, though, for audit purposes? There is a bit of a conflict there.

Graham Watson: No. I did not do that for the 2023-24 accounts as chair. Part of that was about the whole going concern issue. The other part was something that accountants would call a material post-balance-sheet event. In other words, we knew that AST was in difficult circumstances, so it would have been misleading to have signed a set of accounts that did not allow time for the AST situation to reach a conclusion, which we knew was likely to happen fairly quickly, whether that resulted in it being rescued or having to fold. My view was that I was not going to sign a set of accounts for UHI Perth with such a material uncertainty unresolved. We were so late in signing the accounts anyway, for a whole host of reasons, so waiting another two or three weeks would not have been the end of the world. Indeed, that would have allowed a set of accounts to be signed that were reflective of the situation.

As I said, although I did not sign the accounts, I would have continued to have discussions and want much more evidence personally to assure me that UHI Perth was a going concern before I signed the accounts. At the time, I did not have that and, as I said, I knew that the AST position would reach a conclusion within a short period of time thereafter, which it did.

Jamie Greene: So, in your view, not signing off the accounts was the right and proper thing to do.

Graham Watson: Absolutely. That was correct at that time.

Jamie Greene: Thank you. Living quarter to quarter financially is not great for any organisation. You have staff wages to pay. I have spoken with some of the college tutors at Perth and they admit that they did not always realise the bigger picture of college finances, how perilous they were and that their salaries might not go into their bank accounts that month. I guess that you do not want to advertise on the walls of the college that you are running out of cash this month.

I want to talk about some of the mitigating measures that you took to make ends meet. If at any point you were running out of cash, how were you able to make ends meet? Were you given loan funding? Was there bridging funding from the SFC? Were you simply taking money out of future pots of cash to suck into this quarter from the next? I could not quite understand how you were able to pay the bills.

Dr Cook: We never actually ran out of money, and some of that was because we had loan funding from the Funding Council. However, that, as Mr Watson said earlier, was the next year's money. It was not additional money; it was a movement of money between periods of time.

Jamie Greene: That now sits on your balance sheet anyway as loan funding, presumably.

Dr Cook: I am assuming so, but it is six months since I left so I could not answer that question directly.

Jamie Greene: Is there a fundamental issue with the model of the University of the Highlands and Islands? Colleges—providing HE, to be fair, as well as further education—are somehow umbilically linked to it and by default UHI top slices their revenue for whichever purpose, to contribute to its own revenue as a university. Does that model work? At what point could UHI Perth simply have said, “The model is not working. We would prefer to be a stand-alone college, an entity with a direct relationship with the SFC, providing college courses that meet the skills needs of our local community,” and cut that cord with UHI? Was that discussed? Would that have been of any benefit? Is that a model that could exist?

Graham Watson: I will answer as the former chair and Dr Cook may pick up on it as former CEO.

From the day I joined the board, the future of UHI Perth was uppermost on our agenda. All the time we could see this potential problem coming down the road. Could we talk to other colleges that were more centrally located? UHI Perth is a little outlier. Were there other merger opportunities? This is partly, perhaps, the reason why the

previous chair was no longer in post, but there was a lack of desire on the part of UHI, and there seemed to be a lack of desire on the part of SFC, to allow discussions to happen outwith the confines of UHI. It was, “How can you fix UHI as is?”

Again—I want to make this point—the board was thinking about how we could take responsibility for our position and not just continue to rely on others. In December 2023, we—confidentially, at the time—thought that it would be helpful if the two largest colleges in the partnership, Inverness and Perth, had some exploratory discussions about whether we could do something together. We had the most staff, we had the ability to sort central and shared services, and we could take decisions quickly. I thought that that discussion was worthy of being explored in outline and, if there were any legs to it, that it should be taken further forward.

I would like to hear from the former chair of UHI Inverness because he was quite forthright in his views, but he resigned for whatever reason. However, as the discussions unfolded, we were not able to take the idea forward. I do not have the exact reference here, but a letter was sent by the minister at the time, articulating that it was up to the colleges to fix this, in discussion with UHI. I am slightly paraphrasing, but the way that he phrased that letter seemed to suggest that the colleges should take responsibility and involve UHI. What was happening was exactly the reverse. We went through months and months of work to try to figure out if there was a new model for UHI, and I was part of a working group on that with UHI and other colleagues from the partnerships. Eventually, rather than producing a full options appraisal, UHI decided that, “No, this is the way we are going. This is the future direction.” I do not know where our discussion now rests, but it would have been a fundamental change to the structure.

12:15

Now, the UHI Perth board always has to consider what is in the best interests of UHI Perth. That is its primary responsibility. However, as an independent board—or semi-independent board, given the control that UHI was effectively exerting—it does not necessarily follow that what is in the interests of the UHI as a central body, or the UHI partnership, is necessarily in the best interests of UHI Perth. In my tenure, we never quite got to the point of being able to reach a landing on that one, but it was interesting that both UHI Inverness and UHI Perth thought that it was worth while trying to be the architects of some action. As Dr Cook said, there are reports going back years and years that say, “You need to fix UHI.” People have looked at it and there have

been reports, but it is difficult: there are a lot of different agendas and interests at play. We, as the two largest parts of that collaboration, thought that it would be helpful because we were looking at our own position and thinking that where we were sited at that particular juncture was not ideal and that we should explore whether we could collaborate in some way, which may or may not still be a partial solution here.

Jamie Greene: Sure, and again, you cannot answer for the current scenario because you are no longer in the organisation, so those are questions to be directed to others. From my point of view, what I have heard this morning is a prime example of what is wrong in the college sector in Scotland and of how perilous it is, how teetering on that cliff edge of financial meltdown some of the colleges are. Here is a prime example of that—there are others; we all have anecdotal stories from our regions—playing out in practice, unfortunately.

The Scottish Government is considering the transformation of the model or the role of colleges in the skills sector and in educating Scotland's young people. Any such transformation would benefit from the sort of feedback that we have had from you this morning, particularly Mr Watson, given your industry experience. I hope that that is something that you would consider, if you are ever asked.

Graham Watson: Absolutely. To be clear, I do not think that any of us would have accepted the invitation to join the board of UHI Perth in a voluntary capacity if we did not believe in the model. I had had experience, as I said at the outset—eight years on the court of Heriot-Watt University—so I was a passionate advocate of the importance of education and educating young people in Scotland, and colleges are in a remarkable position to do that if they are properly set up and properly funded. You have to fund it properly. The current model, as you have said, is definitely creaking, and Colleges Scotland is on record on a number of occasions saying that, but we are still not grappling the challenge.

You see the world out there unfolding at a massively rapid rate of knots. I am just back from San Francisco, where my younger daughter lives, and the pace of change is frightening. We are doing a lot of good things in Scotland but we have to get the college model right, working with industry, in the same way that graduate apprenticeships are important in the university sector—that is a fantastic model to build on. We must continue to invest in the college sector because it is vital to equipping young people with the skills that will be necessary in what is an increasingly competitive world out there.

Jamie Greene: I will end on that note. Thank you.

The Convener: Thank you very much. We have heard quite a lot of useful evidence this morning and I think that you have been given an opportunity to put on the record some things that I know you feel inject some more balance into our committee considerations. As the deputy convener said, we very much appreciate you taking the time to come in and give us the benefit of your experience and your perspective on the Auditor General's report.

As I said at the outset, in January 2026, I think, we are due to take evidence from some of the people who have taken your previous positions, as well as from the Scottish Funding Council and the wider University of the Highlands and Islands. That will give us an opportunity to put to them some of the things that you have said to us. You may wish to follow that with some interest.

Mr Watson, I think that you agreed to share with us the December 2024 letter. If any of you, on reflection after today, have anything else that you want to supply to us, we are quite happy to accept a note after today's oral evidence session to help us prepare for the next round of evidence that we will take. Dr Cook, Mr Wishart and Mr Watson, thank you for coming in and for the evidence that you have presented to us this morning.

I move the committee into private session.

12:20

Meeting continued in private until 12:52.

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