OFFICIAL REPORT
AITHISG OIFIGEIL

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Public Audit Committee

Wednesday 17 December 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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PUBLIC AUDIT COMMITTEE

34th 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)
Carole Grant (Audit Scotland)
Richard Smith (Audit Scotland)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 17 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 34th and final meeting in 2025 of the Public Audit Committee.

Under the first agenda item, do committee members agree to take agenda items 3 and 4 in private?

Members *indicated agreement.*

Section 22 Report: "The 2024/25 audit of the Scottish Government Consolidated Accounts"

09:30

The Convener: Our main agenda item this morning is consideration of a section 22 report on the 2024-25 audit of the Scottish Government's consolidated accounts. I am pleased to welcome to the committee the Auditor General, Stephen Boyle. He is joined by Carole Grant, audit director at Audit Scotland, and Richard Smith, senior audit manager at Audit Scotland. We have a wide range of questions for you this morning, Auditor General, but before we ask our questions, I invite you to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Many thanks indeed, convener, and good morning. I am presenting this report on the 2024-25 audit of the Scottish Government's consolidated accounts under section 22 of the Public Finance and Accountability (Scotland) Act 2000. The Scottish Government's annual consolidated accounts are a central part of its accountability to Parliament and the public. My independent audit opinions are unmodified, which means that the accounts provide a true and fair view, and meet legal and accounting requirements.

There are a few areas in particular that I want to highlight to the committee from my report. The first is that the consolidated accounts report a total expenditure of £56.3 billion, which is £1 billion less than budget. That is mainly due to £2.2 billion of additional consequentials that were received from the United Kingdom Government during the year. This avoided the need for previously announced spending control measures and the planned use of ScotWind revenues.

On financial sustainability, key financial documents were published earlier this year, but we have found that more detailed delivery plans are needed. We also note that the financial position of the Scottish public sector remains unsustainable. The public service reform strategy aims to accelerate workforce reforms, with significant changes also planned to public services.

Our report also covers the roll-out of Oracle cloud for the Scottish Government and 32 other public bodies at a cost of £59.5 million. The Scottish Government must now demonstrate, following introduction and implementation, that it is achieving value for money from the roll-out of the system, together with the full realisation of anticipated benefits.

The absence of a national performance framework means that the Scottish Government cannot yet clearly show that public spending is delivering the intended outcomes from its priorities. With on-going financial challenges, it is increasingly important that targeted spending is delivering maximum impact.

I have continued to have strong impact on sponsorship. Effective sponsorship arrangements are essential to balance oversight, assurance and the responsibilities of accountable officers. The Scottish Government still has work to do to ensure consistent and effective sponsorship across its public bodies.

In that regard, yesterday, I published a section 22 report on the 2024-25 audit of Historic Environment Scotland. It highlights unacceptable weaknesses in HES's governance arrangements, including that the organisation operated without an accountable officer for almost six months. I recognise the committee's likely interest in the matters contained in that report. I hope to have the opportunity to give evidence to the committee in detail on it in the coming weeks, when I will be joined by the appointed auditor of Historic Environment Scotland and the auditor of the Scottish Government. However, with that caveat, I will do my best to answer any interest in the issue that the committee has in general terms this morning.

As ever, Richard Smith, Carole Grant and I will do our utmost to answer the committee's questions.

The Convener: Thank you very much indeed. On your final point, I am sure that we will take full evidence from you in due course on the report that came out yesterday. Nonetheless, we may have some questions this morning about some of the issues that are raised in that section 22 report.

I will begin with one of the themes that came out when the report on the Scottish Government's consolidated accounts was published. There was some discussion around the levels of underspend. My primary question is whether you think that the levels of underspend that are reflected in the consolidated accounts are reasonable.

Stephen Boyle: I will give you a response, but I will turn to Carole Grant in a moment, as she may want to set out some of the detail behind the underspend. The consolidated accounts quite reasonably go into detail of underspend by department within the Scottish Government. They tend to record variances to budget of around £5 million or more.

The first point that it is important to stress is that the Scottish Government is required to break even. That means that it cannot go into deficit and, to meet its financial requirements for expenditure to be regular, it has to report a surplus each year. I may pass over to Carole to set out the historical trends, but there has to be an underspend.

The underspend is split between revenue and capital balances, so, for completeness, before I give Carole an opportunity to set out the detail, I note that the underspend is split between £875 million of revenue expenditure and a further £134 million of capital.

Overall, I would say that it is reasonable to have an underspend. The rationale for it will vary from one year to another, by department. Most important, perhaps, is that not all the money is lost to the Scottish Government. Where there are cash underspends, that money is transferred into the Scotland reserve. Carole may have the detail on the precise figure, but it may become clear in due course.

I will pause and turn to Carole to set some of that out in more detail.

Carole Grant (Audit Scotland): As the Auditor General has said, the underspend has capital and resource elements. The resource underspend of £875 million—or 1.6 per cent—includes non-cash elements, such as financial transactions. The largest resource variances are detailed within our annual audit report at paragraph 62. The first related to the finance and local government portfolio. A contingency was held for year-end adjustments or non-cash elements.

There was also an underspend in the transport portfolio of about £200 million, and that related the trunk road network, ferries and rail services. The final underspend was in the social justice portfolio, and was linked to social security, including assistance but also cladding, which I know has been a matter of interest.

The capital variances in percentage terms were higher, at 5.3 per cent, but the total underspend was £134 million. That was largely within the Deputy First Minister, economy and Gaelic portfolio, partly due to the Scottish National Investment Bank underspend within the year.

Regarding the amount that is carried forward within the Scotland reserve, we go into some detail on that at paragraph 67 of our annual audit report. Currently, on the back of the provisional outturn, the amount carried forward is £557 million, which will be used in future budget years.

The Convener: Okay. Can I just interrogate that a little bit more? On the social justice underspend of £164 million, are you saying that that is unspent money on cladding remediation, for example? Did you also say that it is part of the social security budget, or have I picked that up wrong?

Carole Grant: It is. The social justice portfolio covers both social security and assistance, so not only payments made but the Scottish Government team for the delivery of social security and cladding remediation, as you said.

The Convener: I say this without getting us into policy areas, but Parliament will consider legislation that is about raising a levy to pay for cladding remediation. What you are saying is that, at the same time as Parliament is considering that, you are reporting to Parliament a significant underspend, including an underspend of funds that have been set aside to carry out some of that work.

Stephen Boyle: We are, convener. Both things can be true at the same time, recognising that there will be some timing differences in the delivery of certain Government priorities and projects. We do not have the detail in front of us today about the total cost of the project to deliver cladding remediation. In setting out that there are budget variances, our audit work focuses first on whether those are correctly presented. Are the transactions correct, and can they be relied on? Essentially, as I mentioned in my opening statement, are they true and fair? The principal accountable officer view is that the accounts present, truly and fairly, the costs and transactions of the Scottish Government, and the audit work has confirmed that.

However, you are right that, inevitably, there are amounts that straddle more than one financial year and, as I hope that Carole Grant set out, that money is not lost to the Scottish Government. Alongside that is the question whether it is the Parliament's intention to support additional resources through taxation to deliver on that programme.

The Convener: Okay, but people such as me and Mr Simpson have a longstanding question that we have raised about the fact that there were Barnett consequentials from action taken after the Grenfell tower disaster, which were given to the Scottish Government and did not appear to have been spent. You are reporting today that that continues to be an outstanding area of underspend, at a time when people have many concerns, especially those who live in buildings where cladding remediation is required.

I will move on to social security. Once again, there is a qualification in the audit about social security spending. Can you explain why that is? Do you expect that to continue, and if so, for how long?

Stephen Boyle: Yes, I am happy to start. I will explain why there is a qualification, and I will bring Carole Grant in on some of the forward look around this.

Social security powers are not static. Through the Scotland Act 2016 and the fiscal framework, we have seen the application of new powers that have come to the Scottish Parliament. Indeed, over the past few months, the committee has taken evidence on my report on the adult disability payment, which is the largest component of the social security powers that have been devolved to Scotland.

We set out in today's report on the Scottish Government consolidated accounts—and "consolidated" is perhaps the important word here, convener—that the accounts reflect the transactions of the Scottish Government and those other bodies that are within the accounting boundary, one being the agency that is Social Security Scotland.

The auditor of Social Security Scotland has qualified their regularity opinion because of an estimation of levels of fraud and error within the agency's accounts. As we set out in paragraphs 6 and 7 of our report, that relates to an estimation of around £40 million of overpayments to claimants in Scotland for benefits that are still administered by the Department for Work and Pensions.

Carole Grant may want to touch on what is coming next for Social Security Scotland's powers and regulations in relation to detecting fraud and error. These benefits are still administered by the DWP, and the figure is Scotland's share of the estimated overpayment. The reason why there is a qualification is that fraud and error in every circumstance is deemed to be an irregular amount of public expenditure.

Parliament sets the budget in the Budget (Scotland) Act to spend money as intended. Clearly, if there are amounts of fraud or error, that is contrary to the act and there is a qualification. Carole Grant, through discussion with me and Richard Smith, has to take a view on whether that is material in the context of the Scottish Government's annual report and accounts and our audit opinions. We have deemed that it is not a material amount that would cause us to amend the opinion on the Scottish Government's consolidated accounts, but it is still important. Hence, we think that it is still necessary to give it due attention in both the section 22 report and the annual audit report. I will bring Carole in as she may want to say more about either the generality or what comes next.

Carole Grant: On the size of the estimated overpayment for error and fraud within the DWP-administered benefits, it is reducing, as you would expect, as case transfer happens and more benefits are delivered and administered by Social

Security Scotland. That increases the unknown element, because robust estimation processes are not yet in place for benefits that are administered by Social Security Scotland.

09:45

What the appointed auditor has drawn attention to in the annual audit report for Social Security Scotland, which is on our website, is that the next exercise for fraud and error estimation will be on the adult disability payment. That feels like it will be an important next step, given the size of the benefit being administered.

That exercise should provide good insight into the levels of error and fraud. As we discussed last year, the legislation is now in place to enable Social Security Scotland to require claimants to support the error and fraud processes. That strengthens the agency's arrangements for getting a strong estimate in relation to the benefits that it administers. The auditor has made a recommendation about the need for pace and focus, and that has been accepted by Social Security Scotland.

The Convener: Okay, thank you. Other members of the committee may want to ask questions on that part of the report.

I will move to another area. One comment in the report that jumped out at me was about agency staff. Presumably we cannot name the department or identify the person concerned, but you cite one example of somebody who I think was a former employee of the Scottish Government and who came back on an agency basis, part time over four months, and billed the Government for £85,000 or more. Is that a common occurrence? Was it something that stood out as an isolated incident? What is your take?

Stephen Boyle: We highlight it in the report as an area that the Scottish Government needs to pay more attention to in terms of strengthening the controls and approval arrangements for agency staff. Richard Smith has looked at this area closely, so I will bring him in shortly. However, to address your points directly, we do not think that it is a common occurrence; our testing suggests that it is an isolated example.

The Scottish Government view as we went through the audit process is that the arrangement, although expensive, could be justified because of the nature of the skills that the person had, which were not able to be sourced in the market. It concerned work on a particular scheme that the committee will have some familiarity with to do with the post-European Union exit arrangements. They were providing expertise, in part to mitigate the potential for fines that the Scottish Government might have incurred through that part of the post-EU exit arrangements.

Our interest is that we do not think that there was sufficient oversight of the arrangement at very senior levels within the Scottish Government. We draw a contrast with some of the arrangements that take place within Government for the use of consultancy, whereby approval at higher levels of seniority is required. That is our assessment, and we are pleased—I will bring in Richard Smith to discuss it in more detail—that the Scottish Government has accepted our recommendation on the point. We do not think that it is a common occurrence, but the scale of expenditure that took place on the transaction is noteworthy.

Richard Smith (Audit Scotland): As the Auditor General highlights, it was an extreme case and that is why we pulled it out to illustrate the point about the approval arrangements. Currently, the approval arrangements for agency engagement are that it would be approved at deputy director level, regardless of the individual's daily rate, the length of the appointment or the potential total costs.

I obviously will not name the individual, but as the Auditor General has already discussed, it was a specialist post. The individual retired from the Scottish Government on 1 September 2023. At that point, there was no reason for either party to think that they would re-engage with the Scottish Government. The understanding was that they were leaving, and the Scottish Government thought that it had sufficient internal capacity.

Subsequently, there were some changes within the Scottish Government that meant that the expertise that it thought it could apply to the close-down procedures for European structural and investment funds was not available. It then investigated a number of options. From our discussions, we know that it looked at potentially seconding staff from elsewhere, fixed-term staff or redeploying Scottish Government staff.

As we understand it, the difficulty was that, as the United Kingdom Government was also going through the same process, there was a high demand for that particular expertise. The person was then engaged on 20 November 2023, initially for four months, and that was approved at deputy director level. The engagement was then extended twice; ultimately, it ran until September 2024, so the person was there for nine months. The total cost of that appointment was £221,000.

As the Auditor General says we recommended that, as with consultancy, such an arrangement would be escalated to the director general, and potentially to cabinet secretary level, for approval. The director general of corporate was aware of the arrangement, but there was no formal requirement for it to be approved. We believe that that needs to be tightened up, and the Scottish Government has accepted that recommendation.

The Convener: Wow. In the report, you speak about the individual earning—I use the term loosely—£85,000 for four months' work. You have just said that they earned £220,000 for nine months' work. There is supposed to be some regularity, and there is supposed to be some sort of value-for-money test applied. How on earth does that arrangement constitute value for money?

Stephen Boyle: You are right, convener. These are significant amounts of public expenditure, and there was a real difference with what the person was earning while they were a permanent employee of the Scottish Government. I think that that is the rationale for why we think that it deserved public reporting, as the change was of such magnitude. As we set out in the report, we do not think that the approval arrangements were strong enough within the Scottish Government for sufficient oversight and monitoring of the arrangement.

We had discussions with the Scottish Government, and it was of the view that the arrangements did represent value for money. Although the specialist skills that the person brought may have augmented the position in relation to potentially significant penalties that the Scottish Government might have incurred, we do not think that that is a strong enough justification. As Richard Smith says, we think that clear evidence of either director general or even ministerial oversight of such an arrangement is needed.

The Convener: Yes, and obviously, as a committee, we will consider who else we may want to take evidence from on this report, up to and including the permanent secretary. That is for us to decide.

I am conscious of the time, and I wanted to raise one other point with you, which is about the industrial interventions, which are a feature of this year's report, as they have been in previous years. During the time that I have been chairing this committee, the Government has established a strategic commercial assets division, which has express responsibility for oversight of these interventions, most obviously Ferguson Marine (Port Glasgow) Ltd, but also the Lochaber smelter, Glasgow Prestwick Airport Ltd and Burntisland Fabrications Ltd. Do you think that the strategic commercial assets division is working effectively in ensuring value for money?

Stephen Boyle: I do not know whether I have enough evidence to give a definitive yes or no answer on that. There are clearly stronger and more robust arrangements in place now than there were when the interventions first started. I think that the creation of the strategic commercial assets division is partly a response to audit recommendations that more of a structure was needed around the operation of such interventions. I know that the committee has taken evidence from both the director general economy and his colleagues from the division on a number of occasions.

As I say in the report, we will continue to track and monitor how that division is operating, and the success and value of these strategic interventions through our audit reporting. As you rightly note, convener, the interventions have been a feature of section 22 reports for a number of years. What I have not done, to go back to your question, is to ask whether the arrangement represents value for money. We can give some thought to that as part of our future work programme.

The Convener: Okay. The deputy convener, who I will turn to next, has some questions on one of those projects.

My final question for now is about risk management. In paragraph 69, you say:

> "Risk management is key to the Scottish Government's assurance arrangements."

What evidence have you seen that this is being applied to the relationship with the GFG Alliance?

As we have previously noted, the GFG Alliance is facing litigation because it has failed to lodge accounts with Companies House, including, I think, for Alvance British Aluminium, based at Lochaber. It is facing investigation over suspected fraud, fraudulent trading and money laundering by the Serious Fraud Office. Its auditors, King and King Chartered Accountants, resigned in 2022 following their concerns about the business. Only last week, MHA, which is part of Baker Tilly International, also resigned as auditors from part of the GFG Alliance's subsidiary arrangements because they, too, were concerned about some intercompany interactions.

In other words, this company is riddled with question marks over its conduct and is facing litigation and investigation. Do you think that the Scottish Government has properly managed the risks and has it understood the implications of its relationship with the GFG Alliance?

Stephen Boyle: I will try to address all your points. I am happy to talk in more detail about risk management generally across the Scottish Government, where we have given more assurance than I am able to offer you regarding the transaction with GFG Alliance in respect of the Lochaber smelter. You have given various updates on the current circumstances. I think that it remains the case that there are no auditors appointed and refinancing is still being pursued; that is our latest update. We know that the Scottish Government has regular engagement with the Lochaber business and GFG, and, as ever, it will be better placed to give the committee an informed position of how the remaining circumstances are unfolding.

The consolidated accounts and our section 22 report reflect the current circumstances, which, to a degree, manage some of the financial risk exposure. The accounts set out the valuation of the provision, which is currently £130 million. We look at that very carefully during our audit work, and our assessment is that that is a reasonable balance. Many of the circumstances, which the committee is very familiar with, that are set out in the report are, to an extent, legacy. To go back to your earlier question, the arrangements in place, not only for the investment in Lochaber but for some of the other interventions, were not robust enough to enable the Scottish Government to take a rounded view of the risks and rewards of its economic interventions.

SCAD has gone a long way to addressing the lack of infrastructure and oversight, risk management and engagement with which to track and monitor those interventions. The Scottish Government will need to take a view as to whether it had adequate risk management arrangements in place when it first entered into the arrangement. There are signs of progress, but I do not doubt for a minute that this is not where the Scottish Government wanted to find itself, had it had the benefit of hindsight when it first made the intervention a number of years ago.

The Convener: Okay. My final question is: as the Auditor General, what is your view of a company that does not have auditors and has not filed accounts with Companies House?

Stephen Boyle: I think that I have put that on record; you asked a related question, either 12 months ago or the year before. Clearly, it is a significant gap. All bodies, whether commercial, private sector or third sector, if they are required to do so, should lodge their accounts, and if they are required to have an audit, they should do that in good time. All bodies will want to demonstrate appropriate accountability either to their shareholders, their funders or the public and show that they have used the money and the resources appropriately. Clearly, there is a significant gap in this example.

The Convener: Thank you very much, and thanks for answering those questions. I now invite the deputy convener to put his questions to you.

Jamie Greene (West Scotland) (LD): Good morning. I will carry on where the convener left off with questions about the strategic commercial assets. It will not be a huge surprise that I would like to talk about Ferguson Marine and the Glen Rosa, which features heavily in your report.

First, in exhibit 1 on page 7, you talk about the total financial investment by the Scottish Government into the yard, and its relative value. Can you just talk me through that? You say that £360 million was invested but the current value in the accounts is around £100 million. I suspect many people looking on from the outside into that business will wonder how on earth it could be valued at £100 million.

10:00

Stephen Boyle: I will bring Carole Grant in to set out some of this in detail. There are differences in funding that have gone into the investment and that is reflected in investment accounting disclosures in the annual report and accounts. I will ask Carole to start, and I can come back in.

Carole Grant: Thank you. On the detail that is in exhibit 1, the £99 million in relation to the value in the accounts includes £55 million for Glen Sannox that has now been transferred to Caledonian Maritime Assets Ltd. From last year, the movement in the valuation went from £94.6 million up to £99 million, which means that the majority of the spend on Glen Rosa within the year, which was £41.1 million, has been impaired—so an impairment of £37.9 million out of that £41.1 million that was spent.

Jamie Greene: What I am asking, I suppose, is that if this business were to be sold as a going concern by the Scottish Government to a private company, what would its value be? If I came along and said, “Right, I want to buy Ferguson Marine off you, what is the value of the business?”, would I be looking at £99 million or is there another figure?

Stephen Boyle: That would be the valuation of the vessels and so not necessarily a valuation of the business, which might include other factors. There will be an aspect of valuation of good will, for example, which is the potential value of the assets or aspects of a business that are harder to quantify. That will clearly be a very material figure, but the figures that you refer to are a valuation of the vessels.

Jamie Greene: We have to assume, therefore, that once those projects are complete and the Glen Rosa has set sail and been handed over to its client, that will come off the balance sheet of the business. Essentially, it will just be a going concern without the CMAL contracts.

Stephen Boyle: Hopefully I can set that out clearly. Once the vessels are complete, the valuation will sit with the owners of the vessels—

CMAL. The valuation of Ferguson Marine (Port Glasgow) Ltd will be decided at another point, depending on factors that I think that the committee will be very familiar with, such as the business's future potential, its order book and other factors.

Jamie Greene: Will the business come with any associated debt, according to your analysis of its accounts? In other words, has the Government loaned the business money meaning that someone would inherit that debt if they took the business over?

Stephen Boyle: I will check with colleagues about that first of all. I need to check the up-to-date audited accounts of FMPG for 2024-25, which are due for completion imminently—I expect that they will be laid in Parliament over the course of the next few days. I will come back to you in writing as to what the latest position is.

Jamie Greene: Okay. The Glen Rosa has now been forecast to cost £185 million. That figure is reflected in your own report. Is there any understanding on your part that that will be covered by the Scottish Government? Your report makes a very specific reference in paragraph 75, which says:

> "slippage and cost overruns ... represents a poor use of public money."

That also seems to inhibit the Government's ability to present proper accountable officer assessments of the costs of the projects.

Looking at the table that you submitted in exhibit 5, in layman's terms, it seems that the cost over the last six years has just been spiralling out of control with an unending price attached to the project. Is it your understanding that there is simply a blank cheque available to get this job finished?

Stephen Boyle: No, I think that the Government has given evidence otherwise and suggested to the committee that there is not a blank cheque. There is probably enough evidence to support some of the scrutiny that is going on, by both SCAD and the Scottish Government, on the cost projections, together with the work of FMPG's board and the oversight that it is subject to as well.

You asked about certainty around some of the costs. Given some of the history that is set out in exhibit 5, and notwithstanding what I have just said, we await the next set of projections to Parliament, on both the anticipated cost and completion date of Glen Rosa. Again, as the committee will be aware, I have committed to do further public reporting on the completion of Glen Rosa, which will capture the totality of the process expenditure together with consideration of value-for-money arrangements.

I do not want to miss the point that you made, deputy convener, about accountable officer assessments. Carole Grant can update the committee on our latest understanding on that point.

Carole Grant: In the report, we outlined that the process for the AO assessment was under way. I will hand over to Richard Smith, if that is okay, because he did some detailed work in the past couple of weeks looking at the revised AO assessment and the conclusions from that.

Richard Smith: I think, deputy convener, that you pulled out the main points. The figures over the period shown in that exhibit have increased significantly and the completion date has been extended. That is quite a clear example of the accountable officer assessment process relying on there being an accurate completion date and accurate cost. Previously, the assessment did show that completing the Glen Rosa at FMPG did not represent value for money, so at that point it needed ministerial approval, which it received. However, we would argue that the process is still undermined if the minister has been provided with a completion date and a figure that is not accurate. I think that there was a question last year about where the cut-off is for that. When the first accountable officer assessment was completed, had they known that the Glen Rosa would not be delivered until June 2026 and the overall cost for both vessels would have been £334 million, that might have influenced the decision made, although that is obviously the minister's decision.

We are keen to make a general point that it is critical that what is in accountable officer assessments is as accurate as possible. Even in the period from December 2024, when the last one was completed, to when the letter was submitted advising of the later completion date, there is a significant movement in the completion date over those six months. The latest accountable officer assessment has been completed and that now shows that it does represent value for money at this stage to complete the Glen Rosa at FMPG, so that does not need ministerial approval. It satisfies the VFM test.

That assessment also considers a scenario where the Glen Rosa is not delivered until December 2026, and where the costs were an additional £16.5 million over what has currently been advised. That is risk assessed and so, even if it is pushed out to that date and that completion cost, it would still meet the VFM test at this stage. Obviously, the Scottish Government can give you more information on that assessment.

Jamie Greene: I find any assertion that any of this is value for money beyond the pale. Clearly, £335 million for a £90 million contract is not value for money. My issue really is: what faith can any of us have—as a Public Audit Committee or as a Parliament, or you as Audit Scotland—that any projections, either timelines or financial projections for the cost completion of the project, are going to be accurate? They have never been accurate. The accountable officer has never had accurate information from day 1. There has been slippage on the dates and the costs, which started at £110 million six years ago, and became £200 million, £220 million, £300 million, then £335 million. My question is, where does it end? What faith can we have that any estimates coming out of the business are accurate and reliable?

Stephen Boyle: We have to remain sceptical about the projections and even, as Richard Smith outlined, the accountable officer assessment. The most up-to-date assessments suggest that it represents value for money to keep going—that is the point, I think—with the investment at FMPG, rather than being a wider value-for-money assessment of the totality of the project. Even in some of our earlier reporting, deputy convener, we have been pretty clear that the final spend will not represent value for money. Similarly, we will reserve the opportunity to comment again in full when we complete our final audit work at the point of handover of Glen Rosa.

Scepticism is entirely valid, both on the final costs and on the completion date. Like the committee, we will continue to track the likely completion dates, through our audit of FMPG and the correspondence that comes to Parliament from the yard, and we reserve that opportunity to complete our work during 2026.

Jamie Greene: Okay. I will move on—I am sorry that I took so much time on Ferguson and Glen Rosa, but it is an important area for the committee.

I will move on to the bigger picture around Scotland's fiscal position and pick up some of what you said in your report and in your opening statement. As you mentioned, the Scottish Government has a requirement, essentially, to break even each year, but you talked a little with the convener about the £1 billion underspend. Is my assertion correct that that was made possible only because of consequentials of around £2.2 billion that arrived in-year from the UK Government? Therefore, is it safe to assume that, if £2.2 billion of consequentials arrived in the Scottish budget in-year and there was an underspend of £1 billion, about £1 billion of the consequentials was spent. Is that correct?

Stephen Boyle: The receipt of consequentials of just under £2.2 billion was so material that it allowed the Scottish Government to change tack in terms of delivering the difficult planned interventions and saving measures that had been expected. There is an important reference in paragraph 22 to what had been the planned use of the ScotWind revenues of £460 million, which is another important aspect of it.

We go on to say that, because of how public spending operates and decisions that are made—such as recurring spending decisions, typically through workforce and associated pay awards—there are still financial pressures during the current financial year of 2025-26. I particularly note that the financial balance still requires work within the Scottish Government. Many of the steps that are planned to be delivered during the course of the current financial year to deliver a financial balance require either non-recurring savings to be made or benefit from one-off measures—I will turn to Carole Grant if the committee is interested in more detail on that.

That is why I repeated in my opening remarks a comment I have made multiple times about the sustainability of Scotland's public finances, drawing again on the Scottish Government's own publications. Its own medium-term financial strategy suggests that by the end of the 2029-30 financial year there is a forecast revenue shortfall of £2.6 billion and a slightly smaller capital shortfall of £2.1 billion. Clearly, next month's budget and the spending review are the opportunity for the Government to set out, in part, how it intends to address those gaps.

I am happy to speak further, and we can come back to some of the strategies that were put forward over the course of the summer, in part to address some of the gap. If you find it helpful, deputy convener, I will turn to Carole Grant.

Jamie Greene: I apologise but I think that we are short of time.

Stephen Boyle: If you are short for time, I am happy to leave it there.

Jamie Greene: I want to interrogate a little further because—certainly in politicalspeak—money is tight, times are tough, and so on. That is a message that the wider public will certainly perceive from how any Government manages public spend, and I guess that they will be wondering how on earth money can be tight when there is such a huge underspend in the budget. The question is: could that money have been used, or could it still be used, to avoid cuts or one-off savings in next year's budget? That is a fair question.

Stephen Boyle: It is, absolutely. The important dynamic that exists in Scotland's public finances is the use of the Scotland reserve. That is available for underspends in one financial year to be carried forward into another, and it is available for the Government, with the scrutiny of Parliament, to set out its spending intentions, as it has done in previous years within the parameters of the fiscal framework, and say how it intends to use the balance in the Scotland reserve. Of course, £1 billion is a significant and eye-catching figure in terms of an underspend.

10:15

One point that we make in the report is that, typically, expenditure tends to happen by portfolio within the Scottish Government. We make the point that not all the Government's priorities can be met by one department, so there are cross-cutting opportunities and cross-cutting risks, and there are opportunities for the Scottish Government to better manage them. That is our general point.

How is the Government delivering its priorities across different portfolios? The point that the Government makes in response to today's report and the recommendation that Carole Grant and Richard Smith make in the annual audit report are important. The commitment to review structures to deliver cross-cutting priorities might help to deliver expenditure, within some margin, as close as possible to the totality of the budget that is approved by Parliament.

Jamie Greene: Could you explain what you mean by the following comment, which appears in bold on page 16 of your report:

> "The Medium-Term Financial Strategy highlights the unsustainable financial position of the Scottish public sector"?

That is a bold and sweeping statement. What do you mean by that?

Stephen Boyle: We mean that the Scottish Government is forecasting that, by the end of the 2029-30 financial year, there will be a revenue gap of £2.6 billion and that such a significant figure means different spending choices or revenue-raising activities. Doing nothing is not an option.

Jamie Greene: That is interesting. In other words, the way out of that hole is to spend less or raise more money. Is that correct?

Stephen Boyle: Those are two options. Another option is to reform public services and change how public services are delivered. That is why the strategies that were produced over the summer—the public service reform strategy and fiscal sustainability delivery plan, together with the national health service strategies—are so important. Those are the routes to addressing the unsustainable nature of the cost of public services and—I expect by extension—to delivering better outcomes for public spending.

Jamie Greene: Does public sector reform sound like cutting jobs in the public sector?

Stephen Boyle: That is part of it. The Government has been clear that it intends to reduce the public sector workforce. Our report includes some detail, together with statistics that were published yesterday, on public sector workforce numbers and the intention to reduce them by 0.5 per cent each year. Paragraph 54 of today's report draws on some of the content of "The Scottish Government's Fiscal Sustainability Delivery Plan 2025" and the target to reduce the workforce by 0.5 per cent on average per annum while protecting front-line services, saving between £100 million and £700 million per annum as part of the process. If you are interested, we have further detail on the workforce statistics, but the Government has been clear that it intends to reduce workforce numbers.

Jamie Greene: That is interesting. I go back to the point about how the Government does that. It has to make ends meet, so it cannot spend more than it has, with the exception of some capital borrowing opportunities. You also said that there is some Scotland reserve money that could be rolled over, so there is some wriggle room in being able to dip into pots of money where the Government does not have it for the balance sheet.

Going back to the point about how the Government could best resolve the situation, public sector reform is clearly one area. Making cuts is never popular for any Government. On the other important bit about raising money, is that best achieved through simple tax raising? Are there other means of growing the economy, such as increasing the tax base or improving income from other taxation due to growth in the business sector, for example?

Stephen Boyle: I will refer to some of the reporting and evidence taking on our "Financial sustainability and taxes" report that has taken place with the committee over the past few weeks. We looked at how some of the current arrangements exist with devolved taxes, particularly Scottish income tax, and the need for better transparency in and improved public understanding of how that operates, and the need for better alignment between devolved taxes and economic growth aspirations in the national strategy for economic transformation.

The specifics of the fiscal framework inform the choices that will lead to the best result. An example is that, while growing gross domestic product is an excellent thing for economic growth, it will not necessarily translate into benefits through devolved taxes and, specifically, the Scottish budget. What really matters is growing the tax base: more taxpayers in better-paid jobs. That will have the biggest benefit for the Scottish budget. Clearly, those will be choices for the Government, scrutinised by Parliament, to make.

Jamie Greene: That sounds eminently sensible, Auditor General.

Another area that I wanted to touch on, which is not in the report but is very much linked to what you have just said, is our net fiscal deficit. For the year that we are looking at in the consolidated accounts, the deficit widened to 11.7 per cent of GDP, which is more than twice the UK average of 5.1 per cent. That strikes me as a concern.

Also, public expenditure relative to GDP is 55 per cent in Scotland, while the UK average has been about 44 per cent. Those metrics seem to show that we are on slightly different tangents. I do not know whether that is good, bad or indifferent. One could argue that we spend more on public services so, of course, that will be a higher proportion of our budget, but that does not always make for better outcomes, does it?

Stephen Boyle: Many of the figures will be a consequence of funding choices. We could track back to the fiscal framework that was created between the two Governments and how we have moved on from that point. I think that we also know that there are variations in relative spend across the nations and regions of the UK.

What is particularly relevant in today's report to the point that you make, deputy convener, is that it is not just about what is spent but, more importantly, what is actually achieved from that spending. We emphasise that, with the national performance framework and the national outcomes, there is a need for better reporting about what public spending is delivering. We have a hiatus at the moment while the national performance framework is being reviewed. We understand that it will be into the late summer or early autumn of next year before the revised national performance framework is fully refreshed. It is important that that timescale is met.

At the moment, there is a significant gap in both parliamentary and public understanding of what is being achieved from the different levels of spending and whether they are different in different parts of the UK. There is a need for pace and progress on that.

Jamie Greene: I think that other members want to talk about the performance framework, outcomes and so on, and they are interesting areas that we will come on to cover.

Other analysis tends to suggest that Scotland has an ageing and relatively unhealthy population, and that that could present a potential risk to resource budgets in future in meeting healthcare and support needs for an ageing workforce that is not getting healthier. Has Audit Scotland undertaken any analysis on more of a medium-to-longer-term view of the Scottish public budget and whether that is a trend that we should be concerned about and, therefore, flag to Government?

Stephen Boyle: That is well documented, and I highlight the work of the Scottish Fiscal Commission in particular. The SFC has undertaken a number of activities that look to project what demographics, for example, might mean for the medium and longer term. Clearly, the further out we go, the less certain some of those projections become, but the fiscal gap of revenue—£2.6 billion at the end of this decade—grows almost exponentially in following years.

I think that the SFC's forecast goes out to 2060, 2070 and beyond. It speaks to the greater importance of the progress that is needed on balance and to meet the aspirations of public service reform, in order to set a sustainable platform to address some of the wider risks and opportunities from the demographic changes that are relevant to Scotland.

In the report on fiscal sustainability and devolved taxes, we highlight that many of the factors are common around the world and that the need for balance and planning to address the challenge of the future starts now.

Jamie Greene: As you say, doing nothing is not an option.

The Convener: Thank you very much. I now invite Colin Beattie to put some questions.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Auditor General, I am going to look at a couple of points. One goes back to value for money, but in this case it relates to the Oracle cloud system. Your report states that the Oracle cloud system was implemented at a total cost of £59.5 million, which is a wee bit higher than the initial estimate of £22 million, and that is without taking into account an additional cost for the enterprise performance management reporting modules, the cost of which is currently estimated to be about £1.8 million. That seems to be a very substantial overrun. In your report, you state that

"appropriate governance arrangements were in place",

but it does not seem to me that the governance could have been all that good if the cost estimate was that far off the mark.

Over the years, it has been our experience that many Government projects have offshoots, if you like, in smaller organisations, where the implementation of such things goes skew-whiff. My understanding was that the Scottish Government had put in place a process for supporting smaller units within the Government that would not be expected to have the resources to do such things in-house. What happened? Why did it go so far adrift?

Stephen Boyle: I will start on that and will bring in Richard Smith, who, together with the team, looked closely at that.

In last year's report, we committed to coming back, in the report that we are looking at today, with the detail of what is a vital investment that the Scottish Government has made. It is important to state that the system that was in operation was not fit for purpose. It had significant functionality deficiencies and cybersecurity risks. This investment in digital capability had to be made, just as many other public bodies will need to invest in it over the next few years, as part of the Government's stated ambitions to transform the digital capability of Scotland's public services.

We set out the timeline in exhibit 2. I will ask Richard Smith to explain some of the detail, and he might also want to talk about some of the governance and gateway arrangements that are inherent in large, complex projects. In paragraph 27, we sum up why the costs jumped. The Scottish Government underestimated the scale and complexity of the project, and it was subject to implementation delays.

The costs have jumped, as you outlined, and there is still activity to be undertaken in respect of EPM. That will continue during the course of 2026. The Government is not yet in a position—and neither are we—to say that the project represents value for money. However, we are clear that it is a project that had to happen in order to give the Government, together with more than 30 other public bodies, the necessary functionality. We can come back to that after Richard Smith has said a word or two. It is something that we will continue to track in the course of our audit work next year and beyond.

Richard Smith: On Mr Beattie's point about the costs, we are clear that the costs were not well managed. I think that the Scottish Government would accept that the original estimate of £22 million was not realistic for the project, and there was a significant overspend even on the £46 million that was subsequently approved when the refreshed business case was produced in April 2024. In looking at the governance and implementation, when we reported on the cost overrun last year, we were looking specifically at the implementation process for bringing the system in.

In making all these judgments about Oracle, it is important to note that we are trying not to underestimate the scale and complexity of the project, as well as—putting the costs aside—what could have gone wrong for business continuity and the risks to the interests of the Scottish Government and 32 other public bodies. We refer to the fact that they all succeeded in having unqualified audited accounts this year.

The Scottish Government has advised that, where the cost overruns arose, that was to do with underestimating the scale and complexity of the programme. Implementation delays have also contributed to that. We have been clear that the Government should look at that in more detail in its post-project-implementation review. One thing we have flagged—I think that it is in a pop-out box in our section 22 report—is the need to consider the impact of optimism bias, which is the assumption that that everything will run to plan. Clearly, there are elements of the project that the Government could have planned better for, building in more contingency and coming up with a more realistic cost for the introduction of the new system.

10:30

We also make the point about value for money, which has been a theme already this morning. In its present state, the new system is already operational, and it has a range of benefits over and above what was possible in the old system, which, as the Auditor General said, was not fit for purpose. It is important that the Government continues to focus on that and realises those benefits going forward. We have looked at the Oracle project as a long-term investment like any capital project—we would not look at just the benefits that arise in year 1. It should be an investment that, into the future, delivers benefits to the Scottish public sector in terms of enabling it both to look back at what has been spent and, more importantly, to target expenditure better and have live data of what is going on during the year, so that remedial action can be taken.

There are a lot of potential benefits to the new system, which we set out in the annual audit report, but we are not yet at the stage at which they are being realised. At the moment, it is moving into stabilisation, and the next stage is optimisation. Basically, the system is up and running but we now need to know what it can deliver for the Scottish public sector in the longer term.

Colin Beattie: I do not think that anybody is challenging the need for the system; it is really a question of the implementation. You also say:

> "The Scottish Government anticipate that they expect Oracle Cloud to be in a stable state in Autumn 2025."

Do we know whether that has happened? Is it now in a stable state?

Richard Smith: I think that the Government is in the process of making that assessment. Various gates need to be satisfied for it to be able to say that the system has reached stabilisation. Some of this is information technology jargon. Once the system reaches a stabilisation point, that means that the Government is confident that everything in the system is running satisfactorily and it can start to move to the next stage of applying modifications, patches and enhancements to the system, as well as rolling out the enterprise performance management reporting modules that I have referred to. Officers of the Scottish Government will be able to advise whether they have done that, but my understanding is that they are currently going through that process of assessing whether the system is now at stabilisation.

Colin Beattie: At what point was a red flag raised because the project was going off track?

Richard Smith: In exhibit 2, you can see that the original full business case for £22 million was approved in April 2022. In September 2023, there was a refreshed business case, and, at that point, once Oracle had been selected as the preferred option, the budget increased significantly to £46 million. There were then further increases in the amount of work that was needed to deliver Oracle, and those added to the delays in implementation. The Government had planned to implement it at the start of April, at the start of the 2024-25 financial year, but decided at that point that it was not stable and reliable enough to be introduced with confidence that it would operate satisfactorily. That delay then led to further costs. Along that timeline, you can see that there was one very significant increase and then another increase from £46 million to £59 million.

Stephen Boyle: One of the key judgments that we make in our report is that the original estimate, which assumed a cost of £22 million, was not realistic. This is not an example of the cost of a project spiralling. The biggest jump was from the estimate of £22 million, which was the original assumption, to the estimate of £46 million, which was based on reliable information about market-driven costs. It is a lot of money, and I never underestimate that we are talking about public expenditure. However, although the cost has since grown to £59.5 million and the project still has some way to go to fully evidence value for money, it is perhaps the starting point that matters.

You can look at it in two ways. When they are considering a project that uses public money, public bodies should have a clear, robust and full understanding of what the project could cost. However, there is also uncertainty, as market changes will inform the cost. Many public and commercial bodies are fishing in the same pool for new systems and for suppliers to provide those services, so there is something about being held to the realities of the market. When they finally got to £46 million, that was a much more realistic figure to base expectations on.

Colin Beattie: My concern is that, looking back on other projects, there has been a repetition of an unrealistic starting point and an underestimation of the sheer scale and complexity of the systems that are going to be put in. I thought that we had put in place a robust process to ensure that we did not get that uncertainty again. There is always a bit of creep in costs—unfortunately, that is just the way it is. However, in this case, there has been an exponential increase in costs. What can we learn from this? In my opinion, the initial estimate should have been picked up as being unrealistic at the very beginning.

Stephen Boyle: You make an important point. Information technology projects costing more, taking longer and not quite delivering all the anticipated benefits is not new territory for public bodies or for this committee. There are stronger arrangements now than there were 10 years ago—I do not doubt that. We can confidently say that some of the governance and oversight is much improved. There are robust gateway and scrutiny processes across significant IT investment projects, to the extent that not all public IT projects will proceed. Some will reach a point at which the scrutiny and oversight say that it is cheaper to abandon the project than it is to continue with it. In the round, the governance and oversight have improved.

As you say, Mr Beattie, some of the costs will be driven by market forces, but this will not be the last significant IT investment project. In paragraph 47 of our report, we make the point that consideration of how the project went should be inherent in all major projects, whether they are IT or otherwise, as part of the post-project-implementation review. Richard Smith rightly mentioned the need to track back to see what the reasons for the cost increase were. Why was the initial estimate £22 million when we know, with the benefit of hindsight, that it should have been much more? Was optimism bias built into the project? What steps along the way worked really well? What did not work well? Can we share that learning in a dispassionate and candid way? The next project is a new shared finance system for the NHS in Scotland, and there will be many other systems that need to be implemented or upgraded across Scotland. That learning has to be shared really well and quickly across the public sector.

Colin Beattie: My concern is that we had other projects that encountered various difficulties before this project came forward and, in response, the Scottish Government put in place support and a process that should have eliminated those problems with this one, but that did not happen. I am trying to get to the bottom of why it did not happen.

Stephen Boyle: I do not think that you will get a definitive answer until we do the post-project-implementation review and find out what opportunities were missed, what factors were outside the Government's control and what things went really well. As we have set out in the report, that review is a fundamental part of the next stage, together with the realisation of all the benefits of the project. I am sure that, in due course, the Government will hope to be able to evidence that the project has produced value for money, but it will probably be some months before there is that level of analysis of why we have got to where we have got to.

From what we have seen in our audit work alongside the implementation, some bits went well. We confidently say in the judgment that governance arrangements are effective. We also set out in the report that we are pleased that, given how important the system is to more than 30 public bodies, some of the additional assurance arrangements that require the presence of a service auditor are being implemented. Those are important aspects, but the analysis of the post-project-implementation review is a vital next step.

Colin Beattie: You touched on the finance system for NHS Scotland, which is another fairly complex system that is coming down the road. Have we learned the lessons so that the same thing will not happen with that project?

Stephen Boyle: That question is for the NHS and the Scottish Government to give assurance on; I am not in a position today to say that all lessons have been learned—that would probably put an end to any future audit report on IT investment. It is regrettable that, in some circumstances, public bodies do not learn lessons, but we should never dismiss the opportunity to do so.

In the section of the report on Oracle, we looked to present a rounded assessment. Some parts of the project have not gone well, and the project review will set out more detail behind that. However, such issues cannot be a barrier to continuing to invest in digital. Addressing sustainability and delivering better outcomes must be part of delivering public service reform. It is important for the Scottish Government and for bodies that are still to do this level of transformation to reflect on how they harness the experience of previous projects.

Colin Beattie: We can look ahead to enterprise performance management. You talk about £1.8 million for that. Is there a process in place to manage that more closely and realistically, so that we do not end up with exponential costs again?

Stephen Boyle: I will turn to Richard Smith for more detail.

Richard Smith: I can partly answer the question. The cost of rolling out the EPM reporting modules so far is £1.8 million, which covers three releases between January and August 2025. I understand that the way in which the EPM reporting modules work is that there are different modules and different parts, each of which needs to be approved before it is rolled out. For the next stage, the Scottish Government's emergent plan has work continuing until July 2026. Releases are planned for February and July 2026, which need a business case to be approved.

Going back to our previous comments, to deliver the benefits from the new system, some of the additional reporting functionality needs to be embraced to an extent. There are difficult decisions to make about further investment of money and of time, so that people can get up to speed with using the new system. It operates quite differently from how the old ledger system operated, because it is service-user led. There is lots of reporting functionality that could be enabled in the system, but it will be beneficial only if people take full advantage of it.

Going back to the cost question, the £1.8 million has been committed to be spent. The next stages would require approval before they are rolled out, and any subsequent updates or enhancements to Oracle would go through the same approval process in the Scottish Government.

Colin Beattie: So, at this point, we do not know what the end cost will be.

Richard Smith: No. We have had quite long discussions with the Scottish Government about how we can quantify the implementation costs. The only clean figure that we could have was that the cost was £59.5 million up to October. We know that £1.8 million has been spent on the roll-out of the three releases, but we do not yet know what will be approved and spent on future releases. In our annual audit report for 2025-26, we hope to give an update on what was spent on subsequent releases in that year.

Another point that we were trying to get to was what the monthly running costs are. Since the implementation of Oracle, costs have been about £1.6 million per month, but part of the reason for that is that there has not been a stable period, because EPM is still being rolled out. The Scottish Government has advised that it expects costs to reduce to around £900,000 per month by the end of 2025-26, once the system has reached stabilisation point and there is a bit more continuity in the system, when further enhancements are not still being rolled out.

Colin Beattie: I have one last, logical question. We have talked about the fact that this is an essential system that will deliver benefits. What indicators will the Scottish Government use to measure whether value for money has been achieved?

10:45

Richard Smith: The Scottish Government has already identified a number of potential benefits. We went through them in our annual audit report and set out the reasons why we think that, at this stage, they are not being delivered, which goes back to my comments about showing that the system delivers value for money. That relates to measures such as lower maintenance costs compared with those of SEAS and the previous e-HR system, operational efficiencies, and better engagement and collaboration across the Scottish Government and with other areas of the public sector. The system should support innovation and agility, and it should link into the reform agenda. A key aspect of finance systems is that, although you can always look back at what has happened previously, the real benefit is in learning from what happened and thinking about where to direct resources in the future. There should also be benefits for users and stakeholders through an improved user experience and efficiencies at that level.

At the moment, those benefits are not being realised. Those involved are pulling together a benefits realisation plan that should set out how the benefits will be measured and how they will assure themselves that they are getting the benefits. As I said, that will happen over time; it will not all come in 2025-26, but the benefits should be seen over a number of years. The system should be helping to influence forward-looking decisions and on-the-ground decisions, through potential overspends being identified much earlier, so that mitigating action can be taken throughout the year. One of the major downfalls of SEAS was that, with the best will in the world, the reporting mechanisms were not really fit for purpose—it took so long to get data out of the system.

Colin Beattie: I would like to touch quickly on sponsorship, which is an old favourite that comes up frequently. I am looking at the comments in your report. Are sponsorship teams adequately equipped to challenge public bodies that are underperforming or failing to manage risks effectively?

Stephen Boyle: Ensuring effective sponsorship is an on-going process in the Scottish Government. We see very good examples of sponsorship and other high-profile examples where sponsorship has not worked well.

Paragraph 61 of the report mentions that the Scottish Government's public bodies sponsorship unit completed a review of progress against the review of sponsorship arrangements from 2022, which the committee may recall. That review identified that there is still work to be done to fully embed effective sponsorship arrangements across the 125 public bodies that are aligned to the director general oversight arrangements. That is borne out by our experience, as we see a variety of arrangements.

Of course, the committee has looked at sponsorship examples in close detail. The report refers not just to the sponsorship of the Water Industry Commission for Scotland but to wider responses and how the Scottish Government has sought to embed a better structure for sponsorship.

The bullet points at paragraph 62 mention that sponsorship is to be viewed as a specialism and set out that peer-support arrangements and networks are required, together with deep dives. Those are all appropriate steps to iron out inconsistency in sponsorship arrangements. However, as I said, there is clearly some progress still to be made.

Colin Beattie: There is wide variation in the effectiveness of sponsorship throughout the public bodies; the problem is how to get consistency. The Scottish Government is trying to do that. Is that down to individuals at the end of the day? Is it down to how effective the people at the front line are?

Stephen Boyle: If it is down to individuals, that leads to variation. The Scottish Government has looked to create a more systematic set of arrangements that can provide a sense of specialism and involve peer support, networks and wider oversight, so that it is not down to the dynamic of the sponsor in the Scottish Government and the public body that it engages with, because that model does not guarantee effective arrangements.

Overall, I agree with the assessment that the public bodies sponsorship unit has made of progress against the earlier recommendations. As ever, it is important that recommendations are delivered and embedded so that, when there are challenging examples of sponsorship, the Government does not find itself intervening too early or reacting but finds that it has the right balance to ultimately support the organisation to deliver on its objectives.

Colin Beattie: I am not sure that the importance of sponsorship is adequately understood throughout the system. How could Parliament and the public be better informed about how effective sponsorship arrangements are, particularly when the outcomes are not very good or when risks are escalating in that unit?

Stephen Boyle: That is an important question. In the report, we provided commentary on the need for further progress on sponsorship. I am aware that, as well as this committee, the Finance and Public Administration Committee has looked at sponsorship arrangements in this session of Parliament. It is important to have assurance. Perhaps the permanent secretary, through his reporting to Parliament, might want to offer commentary on his assessment of how sponsorship is working effectively.

We are seeing progress, but there is more work to do. Your suggestion about transparent reporting is welcome.

The Convener: In the full consolidated accounts that the Government produced earlier in the year, which this report is an audit of, the section on the sponsorship of public bodies spoke about deep dives following concerns raised about the Water Industry Commission for Scotland. The deep dives made a risk assessment of public bodies and identified nine that were rated as red. Six of those were NHS boards, I think—I do not know whether they were all territorial boards—that were already under special escalated measures. Of the other three, one was WICS. Do you know which the other two organisations were?

Stephen Boyle: I do not, off the top of my head, convener, but Carole Grant or Richard Smith may have that detail.

Carole Grant: I can confirm that one was Historic Environment Scotland. I cannot remember the detail of the other one. I think that it would have been in relation to budget pressures and the deliverability of savings, which tend to feature heavily in some of the assessments. The budget element, governance and culture are the different themes that they think through in terms of the sponsor bodies.

The Convener: Mr Simpson will ask you about Historic Environment Scotland in short order. However, the deep dive took place way back, did it not? I presume that it was after the initial WICS section 22 report.

Carole Grant: Apologies; it is an annual process. I was referring to the most recent one. Annual deep dives are now embedded; sponsorship teams take the time to look at each of the arrangements for sponsorship and assess where they believe that there are risks.

The Convener: We will get to it when we take evidence on Historic Environment Scotland, but I suppose that the timeline is interesting. At what point was Historic Environment Scotland identified as a red risk, and how long was it before action was taken? I invite Graham Simpson to put some questions to you.

Graham Simpson (Central Scotland) (Reform): Thank you convener. [*Interruption*.] My microphone seems not to be working. It is now.

I will stick to the theme and ask about Historic Environment Scotland, which appears in the consolidated accounts. As you said earlier, you have produced a report on it, which was out yesterday. I was aghast when I read it. It reminded me of WICS and the work that we did on that. Some aspects of the report were very familiar.

HES had no chief executive or accountable officer for six months. There were other aspects that I found very concerning, and that is concerning in itself.

Complimentary tickets were dished out for events at HES venues almost willy-nilly. I do not know how many people were involved.

There were over 400 electronic purchasing cards—maybe there still are—and one in four members of staff had those cards.

There were some specific examples of wholly inappropriate spending, including on a leaving do for a board member. Public money was used for somebody’s leaving do, including for a bar bill. I think that some of that was repaid. Some money was spent on a replacement kitchen. I do not know whether that was somebody’s personal kitchen or whether it was at an HES venue—it is not clear—but that bust the spending limit. There was also £2.9 million on the cancelled archive house project in Bonnyrigg.

Then we have—and this was very familiar from the WICS report—spending on foreign travel, almost half of which was not properly authorised. It gives the impression of an organisation in which controls are lax; in fact, spending was out of control. Would you concur with my analysis?

Stephen Boyle: First, I hope that I will have the opportunity to give the committee much more detailed responses at a future meeting when I will be joined by the external auditor of Historic Environment Scotland. She will be able to develop some of the additional detail that is contained in the annual audit report, together with some of the engagement that she has had with senior officials at the organisation.

I set out clearly, I hope, in my report yesterday some of the significant concerns, unacceptable practices and risks that the organisation was facing as a result of deficiencies in governance, which the external auditor highlighted in her report. We particularly draw attention to the absence of an accountable officer for nearly six months. I have stated our view that the Scottish Government should have appointed a substitute accountable officer to discharge the fundamental responsibilities that an accountable officer has for oversight of public money and of how that public money is being spent to deliver the organisation's intentions.

We can come back to you on some of the detail, perhaps in that future evidence session, but the report draws attention to the arrangements to do with complimentary tickets, oversight and policies regarding purchasing cards, foreign travel and hospitality arrangements.

You make an analogy with previous examples that the committee has considered. Historic Environment Scotland—perhaps like WICS, and there are some others that we have touched on in recent evidence sessions with the committee—is an example of a public body that engages in more commercial activities and it must have due regard to how those arrangements co-exist with being a public body. There are lessons to be learned for Historic Environment Scotland and, more generally, for similar public bodies. Historic Environment Scotland's commercial activities were not unreasonable; it generated more than £70 million from commercial sources, which feeds back into public services. It makes an important contribution. However, that must be done safely and in a way that protects the integrity of public services and public funds.

I want to address your specific question about kitchens. We understand that it was not anybody's personal kitchen but was business related.

Graham Simpson: Okay. [*Interruption*.] There is a problem with the mics, so you might have to turn yours off manually. Thank you.

The information about the kitchen is reassuring. What is not reassuring is that it appears that we have in this organisation a very lax approach to spending money. I accept that it raises a lot of money and generates income for the taxpayer. However, that does not give someone the right, if they work for Historic Environment Scotland, to spend money as they wish, which appears, in some cases at least, to have been happening. That cannot just have been down to the lack of an accountable officer for six months, can it?

11:00

Stephen Boyle: It is also the case, as we mentioned in the report, that some cultural issues need to be fully considered. I welcome some of Historic Environment Scotland's commentary, when its accounts were laid and yesterday in response to the section 22 report, of a planned independent review early in 2026 of some of its structure, culture and strategy. I am sure that we will talk about that in more detail in due course, but the points that we are clear about are how spending takes place, who makes spending decisions and how it is authorised, which must be looked at as part of not just culture but also some of the standard aspects of policy and processes within that organisation.

There is a considerable amount of work to be done to provide assurance to the people who work there, the Parliament and the public that public money is being spent properly in the organisation. There will be many opportunities during 2026 to address the concerns that have been raised.

Graham Simpson: Okay. I know that you are going to come back and that we will ask you about it in more detail, but I wonder whether you know anything about the nature of the foreign travel that was undertaken. What were those trips for? Do you have any information about that?

Stephen Boyle: We can come back to the committee with the detail about the foreign travel. First, we understand that there were business cases for all the proposed foreign travel trips. However, the business case would set out a limit on what would be spent during the course of that travel, but in a number of cases the amounts incurred were higher than the original limit and the authorisation and retrospective arrangements were unclear. We think that that is evidence that there is not enough rigour around oversight or expenditure incurred during foreign travel. It is an example of the need for the organisation to take stronger steps to guard public-fund expenditure more closely and make sure that it is taking appropriate steps to guard against the risk of inappropriate expenditure.

Graham Simpson: When you come back—I think in January—we will be asking for a lot more detail on some of this stuff. Okay, I will move on.

There are 125 devolved public bodies. Do you know what the combined budget for those is?

Stephen Boyle: Through the consolidated accounts, as I mentioned in my opening remarks, the combined expenditure is £56.3 billion. There will be some quirks within that. For example, not all the public bodies will be within the accounting boundary, but they still will be subject to oversight and sponsorship arrangements. In the first section of today's report, we give examples of some public bodies that are not part of the accounting boundaries, such as Ferguson Marine (Port Glasgow) Holdings, CMAL and the Scottish Futures Trust, that will still be subject to engagement and oversight but are not part of the overall budget that we are presenting to the committee today as part of the audited accounts.

Graham Simpson: When we think about public service reform—and you are always talking about public service reform—and when we look at the number of devolved public bodies, do you see an opportunity for making savings? There are a lot of bodies. Some functions could be merged, as could some bodies, and some bodies that are maybe not so necessary could be got rid of. Have you done any analysis on that?

Stephen Boyle: The size and structure of public bodies is a policy matter for the Scottish Government to determine in deciding how it wishes to discharge public services. I refer Mr Simpson and the committee to the Government's public service reform strategy, in which the Government is clear that the landscape of public bodies is part of its considerations. The 125 bodies that we talk about in the report may or may not be part of the model that the Government chooses to deploy to deliver public services in future. There are two parts to the consideration. One is about changing public body structures and there are some exploratory discussions about single island authorities, for example, and how public services are delivered in Scotland's three island communities.

Alongside that, there are also opportunities for sharing public services that sit below structural reform, whether that is sharing back-office functions or managing the estate. Those are all part of progress that can and should be made that sit below structural reform. People often say that structural reform is a barrier and that it will get in the way or be a distraction, and that may or may not be true. However, a clearer analysis has to be done—not by me, but by Government ministers—of the most efficient model to deliver that balance of local connected services that, at the same time, can benefit from economies of scale.

Graham Simpson: I am going to ask you about the medium-term financial strategy and then I will ask about workforce reform to finish.

I think that the medium-term financial strategy paints a rather grim picture. You say that the financial position of the Scottish public sector is unsustainable. To me, that suggests profligate spending habits by the Government. At a household level, if you spent more than you were taking in for any period of time, you would pretty soon be in trouble. The Government is not going to go bust, but if it continues down the road that it is on, what could happen?

Stephen Boyle: There are a few things to say. One is that, each year, the Scottish Government sets a balanced budget and it continues to do that. I expect that that is what the Parliament will see when it considers the draft budget next month. The reason why we talk about "a stark picture" in paragraph 52, however, is that the Government's projections are that it will become increasingly hard to set a balanced budget with the current arrangements. We will see updated numbers in the new year, but the Government is currently forecasting, to March 2030, a £2.6 billion gap on revenue and a £2.1 billion gap on planned capital investment. Of course, there are reasons for that. We have already talked about the tax base, growing the economy, changing demographics, inflationary pressures and so forth. Those are all part of the picture of why forecast spending is growing at a faster rate than revenue sources.

Part of that will be about the clear policy choices that have been made, too. I mentioned earlier a report showing that the adult disability payment is the largest of the devolved benefits and projecting that that will grow at a faster rate than the equivalent consequentials that come to Scotland through the fiscal framework for social security. There is a range of factors to point to. We reference that the Government's proposed responses to addressing the fiscal challenges are through the public service reform strategy and the fiscal sustainability delivery plan. You mentioned that you want to come on to talk about workforce, which is essential to that plan, but a wider suite of measures is needed, with a level of precision and detail as to what will be delivered and when, and whether that will make the necessary impact in addressing the projected fiscal gaps to the end of the decade.

Graham Simpson: Legally, the Scottish Government has to produce a balanced budget. We know that. However, when you are forecasting figures such as a gap of £2.6 billion in 2029-30, that is unsustainable and we cannot carry on like that. What will happen if we continue down that road with those massive and growing gaps?

Stephen Boyle: This is speculation, of course. In that context, in years gone by when there have been in-year financial pressures, we have seen emergency budgets that have resulted in challenging decisions for the Government and the Parliament to make during the course of the financial year. Those decisions are not necessarily the most effective in delivering on the Government's priorities, but they are perhaps the opportunities that most readily present themselves. I would expect that scenario to become a more regular feature if some of the pressures that contribute to the £2.6 billion gap are not addressed.

Of course, there are other aspects of it. Income generation will be a feature. There are two sides to any profit and loss account. The Government, as part of its public service reform strategy, is also looking at revenue generation as part of a means. However, I think that there will be a suite of measures that need to be taken, together with the requisite detail of how the Government intends to bridge the fiscal gap that is set out in its medium-term financial strategy.

Graham Simpson: I will come on to workforce reform, on which you have a number of paragraphs in the report. In paragraph 56, you say the PSRS, which I am guessing is the public sector reform strategy,

"sets out how the Scottish Government aims to increase the pace and scale of reform. The public sector in Scotland is a larger proportion of the employed population than in the rest of the UK and therefore presents additional financial challenges."

My question is about the size of the public sector as a proportion of the employed population. Does that figure need to come down?

Stephen Boyle: That is a policy choice for ministers. Part of that will be driven by demographics and some of it by the geography of Scotland. The population in some parts of Scotland is more dispersed than it is in other parts of the UK.

For completeness, I will make a couple of points. In Scotland, 22 per cent of the workforce is employed in the public sector, which compares to 17 per cent in England, 24 per cent in Wales and 26 per cent in Northern Ireland. It is clear from the public service reform strategy that that is a focus for the Government. We have already touched on the Scottish Government's planned overall target of a 0.5 per cent reduction per annum. The Government's focus to date has been on reducing the contingent or temporary workforce and it has made significant progress on that.

The permanently employed workforce is not yet part of the planned level of change. The Government has also been clear that this is not about front-line services but rather looking for more opportunities to derive efficiencies by sharing services—in some cases back-office services—which takes us back to your earlier question. I know that the Minister for Public Finance, Ivan McKee, has been engaging with public bodies on improving the data and understanding of what is being spent on public services. I am sure that that will be an important part of understanding what choices can be made in the years to come. Carole might want to come in on some more of the detail.

Carole Grant: Thank you. There has been a 51 per cent reduction in the contingent workforce from the high point in March 2022. That is updated for the statistics that were published yesterday. There has been a 4.4 per cent increase in the same timeline. There have been small decreases in the directly employed workforce for the past few quarters, but the statistics that were published yesterday showed a small increase. There has not been the same focus or reduction in the directly employed workforce.

In our annual audit report, we say that there is a need for a strategic workforce plan, which the Scottish Government does not yet have in place. We make a recommendation about that. It is important to look at workforce reductions that are thoughtful and planned to ensure that they focus on the future skills that are needed and that we do not remove posts that will be needed a couple of years down the line. Across the Scottish public sector, there needs to be a medium-to-longer-term focus on future skills, and we need to ensure that that is built into recruitment decisions now to put us in a good, strong place for moving forward.

11:15

Graham Simpson: To end, I will ask you about pay policy. Before I do, however, I will stick to this issue. If 22 per cent of the workforce is employed in the public sector, is there a Government target for getting that down? That is a policy decision. Is there a policy?

Stephen Boyle: I do not know whether there is a target percentage to be reached. The only target that I would reference is what is set out in the public service reform strategy, which is to reduce each year by 0.5 per cent the numbers of the non-front-line workforce in the Scottish Government and related bodies. That is the figure that I mentioned earlier, with anticipated savings of somewhere between £100 million and £700 million. I do not know—it is probably a question for Government rather than for me—if there is a target for the percentage of people employed in public services relative to other parts of the UK. It matters, though, not just in a public sector context but, going back to the questions from the deputy convener, to how the fiscal framework operates and what that means about where and what paid employment there is in Scotland, how that contributes to tax take and then, of course, how that carries through to the Scottish budget.

Graham Simpson: Thank you. I will finish with a question on public sector pay policy. You mention it in paragraph 58, which I think is a significant paragraph. It refers to that policy, but the Government ignored the policy and rolled over to the unions. [*Interruption*.] Yes, I did not think that the convener would like that one, but that is what happened. As you say in the report,

"This introduces additional recurring financial pressures in the short term and has not mitigated the future year risks given many of the two-year deals agreed include inflation guarantees."

Presumably, you think that the approach taken there is unsustainable.

Stephen Boyle: We look to give a factual commentary on how public sector pay policy was applied by the Scottish Government and public bodies in respect of the uplifts for 2025-26 and beyond, given that some of the arrangements that were struck, some for NHS workers in particular, included inflation-plus pay settlement arrangements.

We note that, given that the public sector workforce is just about the largest contributor of public spending, that limits some of the choices that the Government may or may not be able to make, and that will be a contributing factor for it to manage as part of its progress over the next four or five years to support fiscal balance. We look in that paragraph to make a factual observation.

Graham Simpson: The upshot is that if you ignore your own pay policy and give awards that are outwith that policy, something else has to give.

Stephen Boyle: There will be some prioritisation. As you mentioned, the Scottish Government is required to balance its budget each year.

Graham Simpson: Thank you—and I say to the convener that I am sorry for annoying him.

The Convener: Thank you, Mr Simpson. I now invite Joe FitzPatrick to put some final questions to you, Auditor General.

Joe FitzPatrick (Dundee City West) (SNP): I want to ask some questions about performance reporting, which you touched on earlier. Since the start of the Parliament in 1999 there has been a desire to better understand how money is performing in terms of outcomes. When I joined the Parliament in 2007, I sat on the Finance Committee, and we heard about international best practice from, I think, Virginia. The then Cabinet Secretary for Finance and Sustainable Growth, now First Minister, John Swinney, was keen to introduce a structure or framework that would help us to better understand what our money was delivering. From that came the national performance framework.

It is a bit disappointing that one of the key messages in your report is that the Scottish Government cannot clearly demonstrate that public spending is delivering the intended outcomes. At paragraph 85, you talk about the reform strategy for the national performance framework. It would be good to understand what the challenges are with the NPF and what you hope will come out of the review and refresh of the NPF.

Stephen Boyle: It will perhaps address those fundamentals in the early ambitions of the Parliament that you referenced: that the people who use public services and the Parliament that scrutinises the expenditure to deliver them have a much clearer understanding of what is being achieved. It feels like there is a significant gap to be addressed. As I mentioned earlier, it is the Government's intention to set out, towards the end of the summer of next year, the refresh of the national performance framework.

I think that Carole Grant wrote about this in previous years' reports. We commented on why the previous iteration of the national performance framework was not delivering as intended. There were a number of components of it that were not supported by good-quality data and effective indicators. The refresh is the right thing to do in order to have a much clearer understanding and to map that to expenditure, which has also been a long-standing ambition, so that the budget, when it is presented, sets out what is intended to be delivered and how those outcomes will be achieved. We feel that we are in a bit of a hiatus at the moment. The Government's strategy for the budget to map to the programme for government feels like an opportunity, as does the public service reform strategy. We will continue to track and report on that, probably as part of next year's audit.

Joe FitzPatrick: If we have continuing pressures on public finance, clearly we need to see how money is being spent. A lot of the public sector reform that we have talked about for years has also been about how we can shift to more preventative spending. I do not see how we can do that without being able to see what our money is delivering, particularly when some of that preventative spend will be long term.

Stephen Boyle: Yes, I share your assessment. To move to a preventative model requires better data and better assessment of the impact of spending. We make the point in the report, and it came up briefly earlier this morning, that Government expenditure tends not to happen department by department. An assessment of both cross-cutting risks and priorities and how to deliver against those has felt much harder for many years. Carole Grant might want to come in on this further, but the Government's response to that recommendation in the annual audit report that that will be a feature of its consideration is welcome. Clearly, enacting and delivering on it will be vital to bridge the gap that we currently experience.

Carole Grant: In the annual audit report, we made a recommendation in relation to the approach to cross-Government priorities. We recognise that each portfolio will realise the role that it plays, but the issue is the focus that it has if it is not the portfolio's key outcome priority to deliver. That has been recognised by the Scottish Government. I know that there was a recent board meeting focused solely on the arrangements around that. What has generally happened in the past is that it has been managed through the risk management process as a cross-cutting risk, but it needs to be supported by strong governance.

The workforce plans have to recognise those priorities and be the focus for the decisions that are being made. The Scottish Government has accepted our recommendations and, as the Auditor General said, we will track the implementation.

Joe FitzPatrick: Will that cover larger cross-Government areas, such as public service reform and child poverty?

Carole Grant: Yes. Those are the two areas that we called out and mentioned in the report. It is important to focus on those cross-cutting areas and make sure that they have the necessary focus for delivery.

The Convener: Thank you. That exhausts our questions for this morning, but I want to take the opportunity to thank you very much for the evidence that you have given us and for being prepared to talk about the Historic Environment Scotland report, which is only just hot off the press. That has been useful, but we will return to it, I am quite sure, in the future.

For the time being, Carole Grant, Richard Smith and Stephen Boyle, Auditor General, I thank you for your evidence this morning, and I take the opportunity on behalf of the committee to wish you a happy Christmas and a peaceful new year.

11:24

Meeting continued in private until 12:15.

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