OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Wednesday 4 February 2026

Session 6

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PUBLIC AUDIT COMMITTEE
5th Meeting 2026, 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:

Katerina Brown (Historic Environment Scotland)
Joe Griffin (Scottish Government)
Kenneth Hogg (Scottish Government)
Gregor Irwin (Scottish Government)
Sir Mark Jones (Historic Environment Scotland)
Jackie McAllister (Scottish Government)
Shona Riach (Scottish Government)
Stephen Uphill (Historic Environment Scotland)

CLERK TO THE COMMITTEE

Claire Menzies

LOCATION

The Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 4 February 2026

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

09:30

The Convener (Richard Leonard): Good morning. I welcome everyone to the fifth meeting of the Public Audit Committee in 2026. Agenda item 1 is for members of the committee to decide whether to take agenda items 4 to 7 in private. Do members agree to take those items in private?

Members *indicated agreement*.

Section 22 Report: "The 2024/25 audit of the Scottish Government Consolidated Accounts", and "Financial sustainability and taxes"

09:30

The Convener: We will take two items of evidence in public this morning. The first is consideration of Audit Scotland's section 22 report, "The 2024/45 audit of the Scottish Government Consolidated Accounts" and its "Financial sustainability and taxes" report.

I am pleased to welcome to the meeting the permanent secretary, Joe Griffin, who will answer our questions on both those reports. Good morning, Mr Griffin. Attending alongside the permanent secretary from the Scottish Government are Gregor Irwin, the director general economy; Jackie McAllister, the chief finance officer; and Shona Riach, the director general exchequer, strategy and performance.

We have some questions to put to you all, but before we get to them, I would like the permanent secretary to make an opening statement.

Joe Griffin (Scottish Government): Good morning. I thank the Auditor General and his team for the report on the Scottish Government consolidated accounts for 2024-25. I welcome the recommendations, in particular those that support our work to address the fiscal challenges and strengthen public sector reform. I am sure that we will get into those areas in more detail.

I will briefly make a couple of key points at the outset. The Scottish Government accounts have been unqualified for the 20th year in a row, demonstrating robust financial management practices. I am grateful to colleagues for their expertise and sustained work over the reporting year to achieve that. The scale of the fiscal challenge is clear, and action is essential to address the projected gaps of £2.6 billion in resource funding and £2.1 billion in capital funding by 2029-30. Last year, the Scottish Government published its medium-term financial strategy, its first fiscal sustainability delivery plan and the public service reform strategy, providing a clear framework for the changes that are required across the public sector, including in relation to workforce, health and social care reform, social security, tax and growth.

I understand the Auditor General's call for a longer-term approach to fiscal sustainability, and the Government is taking forward work in that regard around three pillars, which are set out in the

financial sustainability delivery plan. The first pillar is:

"Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact."

The second is:

"Supporting sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services."

The third is:

"Ensuring a strategic approach to tax revenues which considers the longer-term impact of our tax choices and competitiveness."

I am grateful to the Auditor General for his recommendations on that point in his report on fiscal sustainability and tax, which the committee is considering today.

There will be a Scottish Parliament election in May, and the civil service stands ready to support the incoming Administration with robust advice and an objective assessment of the fiscal environment in which its policy priorities can be delivered.

As a team, we look forward to the committee's questions and welcome its scrutiny.

The Convener: Thank you for that opening statement. Do you accept the findings and recommendations of both of the reports that we are considering this morning?

Joe Griffin: We do, convener. As I said in my opening statement, the recommendations are very helpful, and we have taken action on a number of them, but we accept them all.

The Convener: Thank you very much for that clarity. You will be aware that we have a second public evidence session this morning on Historic Environment Scotland, which has been the subject of a section 22 report by Audit Scotland. We have also carried out an inquiry into the Water Industry Commission for Scotland over the past year or so. Following the unearthing of issues through that investigation and the identification of issues through the audit, we were told by the cabinet secretary last year that the Scottish Government was planning "deep dives" into all parts of the public sector to review risks and that an examination was being conducted to make sure that the behaviours and practices that we had seen in WICS were not being replicated elsewhere in the public sector. Did that deep dive include Historic Environment Scotland?

Joe Griffin: I do not know specifically the context of the cabinet secretary's remarks. As the portfolio accountable officer, Shona Riach might know.

Shona Riach (Scottish Government): Yes, that is right, convener. The deep dive looked at all of the public bodies with which we have a sponsorship arrangement, which included Historic Environment Scotland.

The Convener: Did that unearth any of the things that subsequently came out in the section 22 report?

Shona Riach: The sponsorship team has had an active and on-going relationship with Historic Environment Scotland. The issues that were mentioned in the report refer in broad terms to governance issues and issues that were, in our view, a matter for the management of Historic Environment Scotland. We have been working very closely with it to address the issues raised and we will give more detailed evidence on that later this morning.

The Convener: Yes, but that is not strictly true, is it? One of the findings of the Audit Scotland report was that, for six months, there was not an accountable officer in place inside Historic Environment Scotland. If I look at the Scottish public finance manual, it is absolutely clear that if an accountable officer is expected to be absent for four weeks or more, an interim arrangement should be reached and a replacement should be put in place. For six months—not just four weeks—an accountable officer was not in place. That does not sound as though the sponsorship arrangement was working very well at all.

Shona Riach: Throughout the period of the absence of the chief executive and accountable officer, the Scottish Government was working very closely with Historic Environment Scotland to resolve the issue. We completely understand the seriousness of the matter and of having such an extended period without an accountable officer in post.

There were some particular circumstances that proved very challenging. Throughout that period, the Scottish Government's first preference was to have Ms Brown, the chief executive, back in post and acting as accountable officer. For the first two months of that period, Ms Brown was on sick leave; for the remaining three and a half months of the period, she was in discussion with the board about returning. Repeatedly throughout that period, we believed that Ms Brown was about to be able to return to that role, which was our first preference.

Due to the seriousness with which we took the matter, we also worked in close partnership with the board of Historic Environment Scotland to look at options for appointing an interim accountable officer. Unfortunately, nobody within the organisation was able to take on that role, as would be normal practice.

We also worked with the board to look at options for appointing an interim chief executive officer. The Scottish Government provided the board with the names of three possible candidates for that role. The board then came back to us with an alternative candidate, who we interviewed, and we said that we would be happy for them to take on that role. Unfortunately, that did not happen, and we are very pleased that Ms Brown is now back.

The Convener: That was a very long answer, but when I look at the Scottish public finance manual, it is crystal clear. Under the heading "Absence of Accountable Officer", it says that if an accountable officer is expected to be absent for longer than four weeks, the principal accountable officer should be notified and action should be taken to appoint an interim replacement. The principal accountable officer is you, Mr Griffin, is it not?

I get that if somebody was off for four, five or six weeks, there might be some bridging arrangement, but if they are off for six months, that means that an organisation that is responsible for 1,600 members of staff and has a turnover of public money does not have an accountable officer for that period.

Joe Griffin: I absolutely understand the point, convener. I think that the answer that Shona Riach has given sets out the attempts that the team was making to ensure that an accountable officer was appointed by the board.

I will not repeat what Shona Riach has said, but she has set out both the efforts that were made and the constraints present at each turn that prevented them from being able to do that.

There was no shortage of effort on our behalf; there were just a number of pretty extraordinary constraints, including, as has been pointed out, the unpredictability of when the chief executive would return to work. After all, it is by far the best outcome to have a stable chief executive operating as accountable officer.

The Convener: But what is also extraordinary is that this was all happening at the same time that the Water Industry Commission for Scotland was the subject of section 22 reports highlighting various characteristics that later emerged as being present in Historic Environment Scotland, such as travel expenses and the use of credit cards. Do you not think that that really ought to have been identified as a problem, given that the Scottish Government had been made aware, through the exposure by Audit Scotland and the Public Audit Committee, of what was going on at WICS? Why was the same approach not applied when the Government was looking at what was going on in Historic Environment Scotland?

Joe Griffin: The sponsor team was looking at what was happening in Historic Environment Scotland, and it made a number of interventions to avoid decisions being made that we do not think would have been correct, including, for example, a rebranding exercise that came at a cost that we did not think was justified. The team was in close contact, as Shona Riach has said, and it intervened on a number of matters. All reasonable efforts were made to try to appoint an accountable officer during the period in question. I think, therefore, that the sensitisation emerging from what happened at WICS was there.

As for the isolated incidents that have now emerged, there clearly has to be a responsibility on the board, the executives and the individual themselves. Of course, the Scottish Government sponsor team needs to take all possible steps that it can to intervene, and it did so in a number of areas. To be honest, I think that the sensitisation as a result of what happened at WICS was there, and the team did everything that it could, but there were some incidents that it was not possible to intervene in and, ultimately, stop.

The Convener: Do you think that the sponsorship arrangements are fit for purpose?

Joe Griffin: Yes, I do. There are a great many sponsored bodies—just north of 80 or so, I think—with which teams interact, and there has been a lot of learning over the years. We have referenced the Eleanor Ryan review of sponsorship, which made a number of important recommendations; we recently reviewed that, and the Auditor General's team helped us with that exercise.

We are also seeing an increasing professionalisation in Shona Riach's area. The function has now been centralised, with a team responsible for more than one public body, to ensure that greater expertise is concentrated among the same number of people.

What you have mentioned today are two egregious examples of behaviours that should not have happened, but I think that, with the vast bulk of bodies that we sponsor and deal with, there are public servants who are doing their best for the public as well as good oversight arrangements from the sponsorship team, which include a kind of risk assessment that is also reviewed through our governance processes, director general assurance meetings, the executive team or corporate board and so on.

Of course, none of us would want the behaviours that we saw in those two organisations to manifest themselves, but I think that they were exceptions and that the sponsorship function overall is in decent shape.

The Convener: I will finish my series of questions by going back to the evidence that the committee took on 14 January from the Auditor General, who again pointed out that

"It is the responsibility of the permanent secretary, as the principal accountable officer of the Scottish Administration, to appoint the accountable officers of public bodies … We have seen a lack of clarity in why the Scottish Government chose not to appoint an accountable officer".—[*Official Report, Public Audit Committee*, 14 January 2026; c 9.]

How would you respond to that?

Joe Griffin: I would respond to it by saying that it is the board that has to agree who the candidate is going to be. Shona Riach has set out the steps that the sponsor team took, working with the board, to try to identify a candidate; once a candidate has been agreed, it is then up to the permanent secretary to appoint them. However, you need to have a candidate to appoint in the first place, and Shona has explained some of the constraints that, despite the team's best efforts, meant that we were not able to find a candidate during that period.

The Convener: But do you not consider yourselves in breach of the Scottish public finance manual?

Joe Griffin: I cannot appoint someone who is not there, convener. It is the responsibility of the permanent secretary to appoint the candidate who has been agreed by the board, but what if the board does not agree a candidate? I have to have somebody to appoint.

The Convener: So this situation could, presumably, be replicated in all kinds of organisations. My reading of the public finance manual is that you, as the principal accountable officer and permanent secretary of the Scottish Government, should step in in these situations to ensure that an accountable officer is in place. You take a different view, presumably.

09:45

Joe Griffin: I do not take a different view, and I do not mean to disagree with you. It was important to me that every effort was made by the team, working with the board, to identify a candidate I could appoint. My initial concern was in ensuring that everything was done, within the realms of what was possible, to try to find a candidate I could appoint. For as long as that did not happen, it was not possible for me to appoint somebody—we needed to have a candidate.

Shona Riach might want to add to what I have said.

Shona Riach: I want to clarify that the legislation and the public finance manual set out that the accountable officer should be an employee of HES. Given that a permanent finance director was not in place and that a number of the senior members of the team were subject to investigations into their behaviour—as you would expect, given some of the press reporting—it was not appropriate to appoint any of those people as the accountable officer. Therefore, our only options were to try to get the CEO back into her role as quickly as possible or, as the permanent secretary said, to appoint an interim CEO. We worked very closely with the board to try to make that happen.

The Convener: Okay, but the Public Audit Committee has seen lots of examples of the CEO of an organisation no longer being in post. For example, Mr Irwin, the CEO of Ferguson Marine was not the accountable officer; other people were designated that role. The accountable officer does not need to be the CEO and, presumably, if the CEO is off, someone else in the organisation should be appointed to the post.

I will move on to the GFG Alliance. In the next few weeks, the committee will be taking evidence from representatives of the GFG Alliance, because we have a long-standing concern about the risk that the Scottish Government is exposed to as a result of its arrangements with the GFG Alliance. As a reminder, I note that that company is facing litigation from Companies House for failing to lodge accounts and is facing investigation by the Serious Fraud Office for fraudulent trading, money laundering and suspected fraud. The company's auditors have walked out and, just this week, we read that Liberty Steel, which is part of the GFG group and operates the Dalzell plate mill in Motherwell, is not securing Ministry of Defence orders because of cash-flow issues.

What do you understand the level of risk to be from your arrangements with the GFG Alliance?

Joe Griffin: I will bring in Gregor Irwin to make some comments regarding that specific question.

Ministers have set clear economic and social objectives in their plans for Lochaber. As you rightly say, we are then in the business of effective risk management. We have to deal with the situation as we find it. We draw heavily on expert advice, and we have a good process for the management of securities that are set out against the guarantees. As I said, we receive on-going advice from special advisers, who keep us well informed. Gregor Irwin will be able to say more about that.

Gregor Irwin (Scottish Government): Convener, as I am sure you are aware, our intervention in Lochaber dates back to 2016, when Rio Tinto sold the Lochaber business to the GFG Alliance. It was our judgment at that time that there was a severe risk that the aluminium smelter would

close, so, on that basis, the Scottish Government, with the approval of the Parliament's Finance and Constitution Committee, provided a guarantee in order to sustain the aluminium smelter in business.

We made that intervention to protect jobs, and it has been successful in meeting its economic objectives. The smelter continues to operate successfully. It directly employs more than 200 people, and it has taken on a number of apprentices in recent years. Hundreds more people are employed in the supply chain. That is all in a part of the country where those types of jobs are in relatively short supply.

You are right that, if you provide a guarantee, it involves risk. We have a comprehensive approach to managing our interests at Lochaber. We monitor the activities of the business very closely and we receive quarterly cash-flow updates that are analysed by external commercial advisers. We maintain a comprehensive suite of securities to protect our interests should the guarantee be called. However, the guarantee has met its economic objectives and we have not paid out any money from it. We have received fee payments from GFG in return for the guarantee and we continue to monitor what the company does to ensure that our interests are well protected.

The Convener: Do you not accept the Auditor General's view that it is a significant gap that the company has not lodged accounts, does not have auditors and is under investigation by the Serious Fraud Office? Are you seriously suggesting that that is the kind of company that you want to be dealing with?

Gregor Irwin: You are right that GFG has been unable to ensure that its accounts are audited. We have been very clear in our dealings with the company that it has responsibility to ensure that it lodges properly audited accounts with Companies House—

The Convener: But it has not done that for years, Mr Irwin.

Gregor Irwin: That is the responsibility of GFG directors; we cannot force them to do that. We have made our position very clear on that: we expect that they should lodge audited accounts. It is our understanding that auditors have been engaged for the Lochaber entities and that that work is under way, but we will wait to see what actually happens. We want to see the audited accounts being lodged at Companies House. The Scottish Government is not responsible for compliance under the relevant legislation; the responsibility lies elsewhere.

You are also right that, in 2021, the SFO launched a number of investigations after serious allegations had been made. That was five years after the Government intervention that saved the Lochaber smelter from going out of business. Sometimes, you do not get to choose who you do business with. We are in a position in which we have to work with GFG, which we do with open eyes. We use external advisers to test everything that we hear from the company. As I said, we take a robust approach to ensuring that our interests are well protected, including through the approach that we are taking to manage the suite of securities. That includes not only the smelter but the hydro and the estates, where there is a comprehensive landholding. We take a serious approach to managing our interests.

The Convener: We have an evidence session with representatives from the GFG Alliance coming up. If you can share any of the advice that you get with the committee in advance of that session, it would be very useful. In the interests of time, I will move on. I invite Graham Simpson to put some questions to you.

Graham Simpson (Central Scotland) (Reform): I will take a step back to where the convener started, when he was asking about WICS and Historic Environment Scotland. It is fair to say that both those organisations had a somewhat cavalier approach to spending our money. We had a number of sessions on WICS, and I vividly recall that we were assured by the Government that there was nothing else to find; it had had a look at the matter and no one else was operating in that manner—and yet, someone was: Historic Environment Scotland. I know that we will come on to ask about that later. How can we be assured that there is not another quango that is adopting those same spending practices?

Joe Griffin: We have a series of arrangements in place through the sponsor teams, and there are points of escalation through the governance process to bring to light any examples of poor behaviour, as you are discussing, as well as broader culture issues, potential gaps in succession planning and anything that would give us cause for concern. That is managed primarily by the sponsor teams in the first instance. I mentioned some of the improvements that have been taken through in that regard.

Points of escalation go through the director general assurance meetings, which are attended by the non-executives and by representatives of Audit Scotland. The executive team is also able to respond to any emerging matters of concern. We can escalate things through to the corporate board, too. On a bilateral basis, in the monthly meetings that I have with my DG colleagues, there is a set-piece item under which we review any points of concern around public bodies. I also referred to the increasing professionalisation that we are investing in.

An awful lot is done, which means that, for the vast majority of public bodies, things are as they should be. There is also a well-informed process for assessing risk. I am not for a moment saying anything other than that what happened at WICS and HES was wrong and should not have happened. I need to look at the arrangements that we have in place to unearth any such situations in short order, at an earlier stage, to prevent them from escalating.

As I said, I think that we are in a decent position in that regard. We always want to keep improving and learning lessons. We will learn lessons from the situation at HES, too, but I think that the function, as a whole, is moving in the right direction.

Graham Simpson: Have you improved the way in which you monitor such organisations, bearing in mind that the practices were uncovered not by you but by the Auditor General, in two reports? That is the fact of the matter.

Joe Griffin: We unearthed a number of things. I referred to the rebranding exercise. There were other matters on which the team stepped in. You are right to say that some of the specific incidents emerged through the Auditor General's report, or in some cases—with regard to the behaviour of certain individuals—in the media. However, we had concerns about the culture of the organisation in which some of those individual behaviours took place, and we engaged on that.

One of the reasons why the appointment of Kat Brown as chief executive of HES was so important was that we realised that there needed to be a stronger executive grip on the culture of that organisation, and we believed that, in Kat Brown—who the committee will hear from later—we had found the right candidate.

In summary, a lot of things were unearthed, although not all of what was going on. Some examples of behaviour by individuals emerged subsequently, but I think that we were aware of the general culture and were doing our best to respond to it.

Graham Simpson: I will not dwell on that, because there is a lot more to get through.

I want to turn to the issue of Ferguson Marine. It might be for Mr Irwin to answer these questions, but that is up to the permanent secretary.

We have just learned that the cost of the Glen Rosa has risen again, by £12.5 million. That brings the total for completing that vessel alone to £197.5 million. It is fair to say that the Scottish Government has completely failed to keep a grip on costs. It has been the ultimate blank cheque. We keep on being told that ministers have made it clear that there are to be no more increases. Yesterday, Kate Forbes said that she was "disappointed". It is all very well being disappointed, but where does the buck stop? Does the Government have a cut-off point beyond which no more money will be provided?

Joe Griffin: I will bring in Gregor Irwin, as you suggested. I think that the announcement that was made on 30 January about the requirement for an additional £12.5 million was expected, given that Ferguson's had signalled before Christmas that there was to be a further delay. That was simply confirmation of the quantum.

As far as the overall situation is concerned, the Government did not wish to be here. Gregor can fill in more of the details—specifically on the point about the prospect of any further costs.

Gregor Irwin: It was announced just before Christmas that there would be a delay of two quarters, and the update that was provided last week concerned the costs that were associated with that.

The reason for the delay is technical issues that were identified during dry dock inspections. Those issues need to be remedied, which has knock-on implications for the sequencing of work. The process that the chief financial officer and chief executive have gone through over the past few weeks has been to quantify the impact of that.

10:00

As you know, I have appeared in front of the committee a number of times to discuss Ferguson's. In May 2023, we did an accountable officer assessment, following a cost increase. We used external advisers to test all the assumptions that were made at that time, based on a narrow value-for-money test, as required by the green book and the SPFM. We concluded that the completion of Glen Rosa, rather than Glen Sannox, did not meet the value-for-money test.

On that basis, I sought written authority, and our ministers provided that, for legitimate reasons. As you know, as well as being focused on the very direct benefits of completing Glen Rosa, ministerial objectives include supporting commercial shipbuilding on the Clyde and the wider economic impact in the region. Those elements cannot be taken into account in a narrow value-for-money calculation. That written authority was provided at that time.

Early last year, we reviewed the AO assessment and once again sought confirmation that the written authority still applied, because of concerns about value for money. When we reviewed the AO assessment again in November, we followed a similar approach of comparing the costs and consequences of completing Glen Rosa at

Ferguson's and the alternative of procuring from another yard. At that time, as you will know, we concluded that that offered value for money, in part because of the advanced stage of the build. I was very focused on the question of feasibility at that point, given the history of cost overruns, and the Deputy First Minister has been very focused on that, too.

That has resulted in intense scrutiny of the plan to complete Glen Rosa. We have also put in place a review group—it includes our technical advisers, Caledonian Maritime Assets Ltd—which is scrutinising progress against the delivery plan. Having the review group and that process is one reason why we have obtained clarity on the position as of now, and that group will continue to operate. We will review that accountable officer assessment again—we will go through our proper processes in that regard—and I am fairly confident that we will reach the same conclusion that we reached in November: that the approach is within the cost increases and tolerances that we considered at that point.

There is a long history of following the correct processes, although the outcome has not been the one that we wanted. I think that everyone wants Glen Rosa to be completed and the yard to secure a sustainable future with a strong pipeline of work. Glen Rosa needs to be completed so that we can move on to the next phase for the yard. However, the processes that we have followed have been the correct ones.

Graham Simpson: You talk about the approach being within tolerances. You must be an extremely tolerant man, Mr Irwin, when we have reached a figure of £197.5 million—

Gregor Irwin: Let me—

Graham Simpson: Hang on—I have not finished.

Gregor Irwin: Sorry.

Graham Simpson: That figure of £197.5 million is way past value for money. It is not value for money. My question is: how much more is the Government prepared to put into this? It seems to me that anything the yard asks for, it gets.

Gregor Irwin: Let me clarify, Mr Simpson. When we did that AO assessment in November, we were focused on the cost to complete the vessel at Ferguson's and how that would compare with the alternative of going through an open procurement exercise, procuring a vessel from elsewhere and completing the vessel elsewhere. Based on that assessment, it was clear that the value-for-money option was to continue the build at Ferguson.

We took a cautious approach in that assessment, so we considered two scenarios. The second scenario was about what the calculation would look like if there was a six-month delay—we costed and considered that scenario. That is the scenario that has materialised. We did not foresee that happening at that time, but we wanted to build a robustness check into that assessment of value for money. On the basis of that second scenario with the further six-month delay, the conclusion was that Ferguson's would still offer value for money. That was subject to proper external due diligence and testing by external commercial advisers. The report that they provided supported that conclusion.

Graham Simpson: I understand that. You are so far down the road that you feel that you just need to finish the vessel. My question was: have you said to the yard that there are to be no more increases? I go back to my original point, which is that anything the yard asks for, it gets, and it knows that. We are the Public Audit Committee, so we have got to have an eye on such things, and so do you.

Gregor Irwin: Of course.

Graham Simpson: If the yard has asked for another £12.5 million, that has to come from somewhere. Somewhere else will be losing out in the Scottish budget because we are pouring money into that vessel.

Gregor Irwin: I am acutely aware of that, Mr Simpson. That is fully understood.

Let me explain the process that we have gone through over the past nine months or so, since Graeme Thomson came in as CEO. We have wanted the plan for completing Glen Rosa to be as robust as it can be, so we have been quite demanding in our role. We provide oversight—we are not executives or the board, which provides immediate oversight of the yard, but we have been insistent on our requirements to see a robust plan for completing Glen Rosa. It took some time to get that into place after Graeme Thomson was appointed and following the focus having been on the completion of Glen Sannox.

I repeat that we use CMAL as our independent technical adviser. We ensure that the right expertise is in place to test what we hear from the yard. In addition—the Deputy First Minister insisted that this happened and, from my perspective as an accountable officer, it is important—we have put in place regular reviews of progress against that plan. Although an additional cost increase is not satisfactory and is not what we want to see, getting sight of it now is in some ways a reflection of the additional protections that we have put in place.

The focus absolutely has to be on ensuring that the yard has to complete the vessel, that it does so

in line with that plan and that it lives within the budget that it now seeks. There is £5.5 million of contingency built into the cost increase, so there is a degree of protection. I am not naive and I do not rely on that, but we will be absolutely focused on doing everything that we can to ensure that we live within that increased budget.

Graham Simpson: I did not want to dwell on this subject, because there are loads of other things that we could ask about, but I am not getting the assurance that, if the yard comes to the Government in another six months' time and says, "Sorry, lads, we need another £15 million," you are going to turn around and say no. You will say, "Okay, here, have it—but finish the vessel."

Gregor Irwin: Mr Simpson, I hope that the experience over the past three years demonstrates that, if we go through the AO process and we see that proceeding does not offer value for money or we do not think that doing so is feasible, of course we will escalate that issue. Our ministers have to take decisions on the future of Ferguson's, while keeping in mind the value for money from the completion of Glen Rosa, the wider economic impact and the yard's sustainability in the future, for which I have only ever heard support in the committee.

Graham Simpson: I will move on, if that is okay, convener. I could spend all day asking the same question and getting the same answer.

I am going to ask about social security. The Auditor General said that an estimated £40 million of overpayments were made to Scottish residents, which is a huge sum. How can you explain that, and what are you doing to get the figure down?

Joe Griffin: Those payments involved benefits that were administered on the Scottish Government's behalf by the Department for Work and Pensions in the financial year in question. Unfortunately, with any benefits system, there is a degree of fraud and error, which it is not possible to eliminate entirely. A number of those benefits are gradually being devolved to Social Security Scotland, so responsibility for them will transfer over. Social Security Scotland is building up its capacity to estimate fraud and error, and it is the beneficiary of a recent piece of primary legislation that gives it new powers to require spot checks on individual clients, which will further strengthen its ability to detect fraud and error. However, in the 2024-25 financial year, those benefits were administered by the DWP.

Graham Simpson: The Auditor General also reported on adult disability payment, which the Scottish Government administers. He said that there is a growing gap between the funding received from the UK Government and expenditure. That is unsustainable and cannot continue. What is the Scottish Government doing to bridge that gap and get Social Security Scotland on to an even keel?

Joe Griffin: The level of benefits is a policy choice for the Scottish ministers. The point of devolving benefits was to build up Social Security Scotland along lines decided by ministers. There are certain principles in play, which the committee will be familiar with.

Ultimately, the funding of those benefits becomes an allocative choice, to use that jargon. Ministers, in budgets, decide how much they wish to devote to those payments as opposed to other priorities.

Graham Simpson: You have not really answered the question. There is a gap.

Joe Griffin: Forgive me—I did intend to.

Graham Simpson: There is a gap between what you receive and what you spend, and it is getting bigger. That cannot continue, can it?

Joe Griffin: As I said, the basis on which ministers choose to fund those benefits is, ultimately, a matter for the budget. If a certain amount of money is coming from Westminster through the block grant, that makes a contribution. If ministers wish to proceed on a different basis, they will need to fund the difference.

Graham Simpson: I get that it is a ministerial decision, but I am asking you whether there is a plan to close the gap.

Joe Griffin: Not in those terms.

Graham Simpson: That is a no.

Joe Griffin: I am trying hard to answer your question. Money is not really hypothecated. As you know, Mr Simpson, it flows through the block grant and the Barnett formula, and then it is up to this Parliament to make decisions about how the budget is distributed.

The analysis of gaps in public spending has been set out in the medium-term financial strategy. I rehearsed some of that in my opening statement. There is a series of measures to respond to that, but there is not an individual plan in the social security budget to bridge the gap, if that is what you are getting at.

Graham Simpson: That is what I was getting at. That is not your fault; there are ministerial decisions and you are there to carry them out. I am not trying to catch you out.

I think that Mr FitzPatrick wants to come in.

The Convener: By all means, Joe.

Joe FitzPatrick (Dundee City West) (SNP): I am slightly concerned about the line of

questioning. Government ministers produce budgets, but the Parliament made a decision way back, when the idea of Social Security Scotland was first raised, that we wanted a social security system that was based on fairness and values, and that respected people as individuals. At that point, when the legislation was going through the Parliament, the decision was made that Social Security Scotland would be how we ensured that people who required benefits, particularly disability benefit, would be able to get them. Do you think that we are managing to achieve that aspiration and ensure that folk who require the disability benefit are able to get it, and that there might well be a gap in that respect, because, in the rest of the UK, people are not able to get the benefits that they require?

10:15

Joe Griffin: I think, convener, that I am being drawn slightly into policy commentary, which I am a little uncomfortable with. If you will forgive me, I might plead—

The Convener: I think that Mr FitzPatrick has put his view on the record, so that will suffice, permanent secretary.

Graham Simpson has a final question, then I will bring in the deputy convener.

Graham Simpson: I have one more thing that I want to ask about: agency staff. A specific case was identified of a previous employee who was engaged for four months on a part-time basis through an agency at a cost of £85,612. That was then subject to further direct awards; the appointment was extended to 10 months, with the total cost ending up at £220,689. It was a technical role, related to the closure of the European structural and investment funds; apparently, a value for money case was made, but that is an extraordinary sum for taking on somebody from an agency. How can we be assured that this kind of thing is not going to happen again and that those kinds of figures are not going to be spent?

Joe Griffin: I might bring in Jackie McAllister to make some additional comments, but we are talking about an exceptional set of circumstances to do with the closure of the European structural funds that followed the United Kingdom's exit from the European Union. There was a need for the work to be carried out to a high degree of accuracy, and with technical input, to avoid the potential for fines being levied, which, as I understand it, could have amounted to anything up to £30 million.

Therefore, the decision was taken to engage the agency worker at the correct level—that is, at director level. That was the level at which the sign-off needed to be made, and there was an assessment of the potential for things to go wrong along those lines, along with the ability of the person to provide that service. Moreover, there was, at that point, a lot of demand for those skills, because the UK Government was going through similar processes in closing down its own structural funds arrangements.

We have seen the Auditor General's commentary on this, and his recommendation that we review the level at which such sign-offs are made, and we are happy to have a look at that. However, I think that there were some really exceptional circumstances in this particular case.

Jackie, do you want to add anything?

Jackie McAllister (Scottish Government): Yes, I will add just a few more points, if I may.

In respect of this particular case, after the individual was first engaged, the Scottish Government decided to extend the ESIF programme in order to increase the potential to recover moneys from the EU. That was the value-for-money argument. As the permanent secretary has said, there were some quite considerable sums at play.

The permanent secretary has also referred to the incredibly limited pool of experience that exists around this particular role, but another point that I would very quickly make is that there is on-going, in-year scrutiny of expenditure. Every part of the Scottish Government will look at its spend on a monthly basis, and that will be supplemented by management information on contract and agency workers on an on-going basis.

Graham Simpson: Okay. I will leave it there, convener.

The Convener: Jackie McAllister, you are the chief financial officer for the Scottish Government, and you have just told us that the amount of funds that could have been recovered by this individual was at such a level that it warranted paying them, for a 10-month period, almost a quarter of a million pounds. Is that really how the Scottish Government views these things?

Jackie McAllister: I think that, as the permanent secretary has set out, this was an exceptional situation in which there was an opportunity to recover significant amounts of funds, and it required an audit authority skill set that was available in only very limited cases.

The Convener: So that is how it works. I just find it incredible that that is how the Scottish Government does its business.

You said, permanent secretary, that you were going to have a look at what the Auditor General said. What he told us was that he felt that approval for that kind of case should be made not at deputy

director general level, but at director general level, or even at cabinet secretary level. What is your view on that?

Joe Griffin: I am happy to look at that. As Jackie McAllister—

The Convener: But do you agree that that is about right—that approval should be given at cabinet secretary level?

Joe Griffin: With the benefit of hindsight—if we had known that that sum of money was in play—there would have been a strong argument for escalating the decision point. I do not think that it is the sort of thing that we see on a regular basis, so we must keep things proportionate and not elevate every decision about engaging an agency worker to the level of a cabinet minister or director general. We have also hugely reduced the number of agency workers—by 70 per cent—from March 2022 to September 2025. The prevalence of such contracts has gone way down. However, as you say, that was a large amount of money and, with the benefit of hindsight, we could ask whether that should have been referred upwards. I am very happy to consider that, but we must keep things proportionate.

The Convener: Okay, but—

Joe Griffin: In this instance, I entirely recognise the point that it is a very large amount of money—of course I do.

The Convener: Mr Smith from Audit Scotland told us that it was "an extreme case", and the Auditor General told us that he did not think that there was

"sufficient oversight of the arrangement".—[*Official Report*, *Public Audit Committee*, 17 December 2025; c 8.]

That is something for you to consider, permanent secretary.

Joe Griffin: Of course it is, yes.

The Convener: I will move us on and invite the deputy convener to put some questions to you.

Jamie Greene (West Scotland) (LD): Good morning. For the benefit of the record, I note that I usually wear a tie.

I have a lot of areas to cover, which I will do my best to get through. Following on from the line of questioning so far, it will not surprise you that I will ask a supplementary on Ferguson Marine, given the great interest in the topic.

I will not rehash any of the questions that have been put to you. There is a wider question about the yard. This committee and Audit Scotland have taken a great interest in the viability of the yard as a going concern and its future as a major piece of infrastructure that is publicly owned and a big local employer in the west.

The problem that we have as a committee—Audit Scotland has reiterated this point—is that it is hard to see what the future for the yard is at the moment. What is its future?

Joe Griffin: I will pass that over to Gregor Irwin, who has been deeply involved in those issues.

Gregor Irwin: Ministers—as are members of this committee—are deeply committed to securing a sustainable future for the yards. A number of pieces of work need to come together to ensure that we can secure such a future. That starts with the business strategy that the yard itself has developed and which focuses on identifying the target markets for a yard in the position that Ferguson's is in just now. The work in the business plan was supported by good external advice from commercial advisers. We are confident that the sector is buoyant, for reasons that I am sure that you will understand. We have identified good target markets for Ferguson Marine—the yard did that based on the advice. The yard is in the process of developing a business plan that requires it to credibly identify line of sight to revenues that are linked to the target markets. There must be a credible plan for delivering vessels that identifies the associated costs, so that the business plan is really solid.

You will be aware that the question of direct awards has come up repeatedly. Ministers consider the appropriateness of direct awards on a case-by-case basis. The framework for making direct awards is significantly legally constrained by both procurement law and subsidy control law and we need to operate within those frameworks. The sector is highly competitive, so we must ensure that any decisions that ministers take are legally robust. It is not in the interest of the yards for ministers to take decisions that cannot be followed through on if they are subject to legal challenge.

We are in the process of assessing the case for direct award for a range of vessels and we will confirm conclusions on that in due course. A number of pieces of work need to come together to ensure that that happens, but all partners are working together to do just that.

Jamie Greene: Would it not help if the Scottish Government gave the yard some contracts?

Gregor Irwin: That is the question of direct awards. There are two ways in which to win business: one is through open procurement; the other is through direct awards. That is legally complex. There are restrictions in terms of procurement law for the basis upon which you can make direct awards. That may require structural changes. Essentially, the requirement is that you

satisfy what is called the Teckal compliance condition, which requires that the body making the direct award needs to have sufficient control over the entity that is receiving the direct award—

Jamie Greene: —which it does. The Teckal issue has been around since I sat in the Rural Economy and Connectivity Committee eight years ago, so it is not a new issue, nor was it insurmountable at the time, yet the yard has been overlooked on numerous occasions for contracts. I do not understand how it has taken a decade to get to the bottom of this.

Gregor Irwin: Indeed. But it depends on the vessel that is being procured. There are a range of potential vessels that could be subject to direct awards, and the approach that would be required in order to be Teckal compliant is in part dependent on the vessel.

In addition to that, it is essential that we comply with subsidy control rules, and there are two elements here which are important. As I am sure that you are aware, we have got a long-standing commitment to invest in the yard. That is absolutely essential in order to improve productivity and bring down costs.

We have made a number of small investments already, but in order to be able to make that full-scale investment, we need to be able to demonstrate that it is something that a commercial market operator would do, and that that is properly tested by external due diligence. That is, of course, also tied to the business plan.

On the broader question of making direct awards, we are required to go through a process with the Competition and Markets Authority in order to satisfy it that the award is being made in a way that is consistent with subsidy control legislation.

I am conscious that there is a lot in that answer. It is complex. We have to operate within the legal constraints. The work is being done. Consideration is being given now to the potential for direct awards for a number of vessels and ministers will provide an update at the appropriate point. The work is on-going.

Jamie Greene: Okay. There is nothing that you have said that we did not already know, nor that gives us or the yard any hope that the Government will give it any contracts, either directly or via regular procurement.

The last business plan that the yard came up with was quite a good one, but it was predicated on the award of the small vessel replacement programme, which of course it was not given, so that business plan was ripped up and the yard has had to start again. It is hard to see what the future is for the yard. I have got no idea what the Government's strategy is. The yard is, of course, a strategic commercial asset of the Scottish Government. Is the plan to keep it in the public sector forever, publicly owned, and subsidise it, and then come up with all these issues around direct awards because it is a publicly owned company? Is there any plan to put it back into the private sector and then let it bid for work? We have got absolutely no idea.

Gregor Irwin: On the preceding business plan, the key factor in that was success in winning the Western Ferries contract. The yard was not successful in winning the Western Ferries contract on open procurement, and that has required a change of approach.

Jamie Greene: There is also the SVRP, though. The Western Ferries contract would have been a nice-to-have contract, but we were told directly that it was the Government contract that the yard was waiting on, not the private one.

Gregor Irwin: The Western Ferries contract was central to that business plan and the yard was not successful there so we have had to adjust its approach. That is precisely what we are doing at the moment.

Our ministerial objectives are clear. We want to secure a long-term future for the yard and for commercial shipbuilding on the Clyde. We want to maintain commercial shipbuilding skills. We want to ensure that the local economy benefits from a successful Ferguson Marine shipyard, at the same time as ensuring that the needs of island communities are being served. Those objectives have not changed.

Jamie Greene: Okay, thank you. I will move on to other issues relating to the reports that we have in front of us.

I will maybe start with you, permanent secretary. The main point of note is the big elephant in the room, which is the identified funding gap in Scottish finances of nearly £5 billion across the next three years. Three years is not far away—it seemed far away when we first heard about the potential gap, but the gap has got bigger and the timeline is getting closer. It is still unclear—this was reflected in the Audit Scotland report—what the Scottish Government will do to meet that gap. Is there a plan?

10:30

Joe Griffin: There is literally a plan: the fiscal sustainability delivery plan was published in June 2025, and it has three pillars. First, it will ensure that public money is focused on delivering Scottish Government objectives in a way that is underpinned by reform and prioritisation. Secondly, it will support sustainable and inclusive

economic policies, particularly to broaden the tax base. Thirdly, it will ensure that there is a strategic approach to tax revenues.

On the public service reform side, a lot has been set out in the public service reform strategy and several projects and propositions are already coming through. Alongside the budget, we published a series of initiatives by portfolio that are already being taken or are planned to be taken, which will achieve total savings of £1.5 billion. However, that will not be done on an annualised basis, so you are right that there is still work to be done to identify the big-ticket items of public service reform, which will be what helps us to bridge the gap as per the strategy.

In recognition of that approach, I wrote to the directors general in just the past fortnight to say that we need to be ready to have those kinds of clear, well-worked propositions for the new Administration. For example, two health boards will merge on 1 April. That is a good start.

However, your point is correct that there is a pace and urgency with which the civil service must respond in elaborating on propositions that can be decided on.

Jamie Greene: Which health boards are merging?

Joe Griffin: NHS Education for Scotland and NHS National Services Scotland.

Jamie Greene: Oh, not geographical health boards.

Joe Griffin: They are two national health boards, not geographical.

Jamie Greene: Okay, that is helpful. Sorry, you got us panicking there and wondering whether you had just announced something by accident.

Joe Griffin: I hope that I have not inadvertently created a headline. No, it is two national boards that are merging.

Jamie Greene: I will come on to public service reform, which is an interesting area, in a moment. However, in layman's terms, the Government will not have enough money to spend on the things that it needs to spend money on because there are resource and capital shortfalls. That clearly means that the Government must either introduce considerable tax rises to make up the difference—I assume that the Government is considering how far it can go with tax rises to achieve the maximum income—or make cuts to public services. The question is which taxes will go up or which services will be cut. The public has the right to know that.

Joe Griffin: As I said, the fiscal sustainability delivery plan is based on three things. In short, the first is about reform, the second is about economic growth—particularly broadening the tax base, because the situation with the fiscal framework is that successful economic performance by Scotland will lead to a considerable increase in revenue—and the third is about a strategic approach to tax. Shona Riach, do you want to add anything about the overall approach?

Shona Riach: Yes. You referred, Mr Greene, to the importance of public service reform, which is also an important pillar of the Scottish Government's approach to long-term fiscal sustainability. The PSR strategy was published last June and it set out, in detail, the vision and priorities for reform. It set out the Government's approach under three pillars: prevention, joined-up services and efficiency. Making progress in each of those three areas will contribute to securing the long-term financial sustainability of public services.

The PSR strategy is built around an ethos of fundamental reform to ensure that we continue to provide excellent public services for the people of Scotland while doing it in a more efficient and cost-effective way.

Jamie Greene: How many public sector jobs is the Government likely to cut in the next three years to meet the reform objectives? Is there a target?

Joe Griffin: In the fiscal sustainability delivery plan, the cabinet secretary talks about a managed downward workforce trajectory of

"0.5 per cent per annum on average over the next five years".

That will provide savings that will grow from £0.1 billion to £0.7 billion, ensuring that public services are sustainable over the medium term.

There is a particular emphasis on back-office roles, if you like, in relation to the Scottish Government core function and the reductions that we need to manage as well. Given that an awful lot of cost in the public sector relates to pay, there will need to be downsizing of those workforces.

Jamie Greene: So, with 0.5 per cent, what we are looking at? How many people per year will the Government lose? When you talk about back-office roles, you are presumably not talking about nurses, teachers, firefighters and police officers—or are we talking about those roles?

Joe Griffin: The PSR strategy talks about a £1 billion target in relation to reducing annualised Scottish Government and public body corporate costs over five years, which involves savings in corporate functions such as human resources, estates and so on. However, as ministers have set out, the idea is to protect front-line staff, so the emphasis is very much on those back-office roles.

Jamie Greene: How many people work in the Scottish civil service?

Joe Griffin: I am struggling to find the figure in my pack. For the core Scottish Government civil service, the latest published figure is 8,873.

Jamie Greene: Do you plan to make cuts yourself?

Joe Griffin: We will need to reduce that figure by some 20 per cent over the course of the next five years.

Jamie Greene: That is bad news for your staff, is it not? Twenty per cent is a lot of people.

Joe Griffin: We are approaching it through natural attrition. There is a commitment to no compulsory redundancies as part of the pay deal and there are no plans for a voluntary scheme. As things stand, there are no plans for anybody to leave who does not wish to leave.

Jamie Greene: In relation to the consolidated accounts for 2024-25, the Audit Scotland report contains some figures on underspend—a £875 million resource underspend and a £134 million capital underspend, which is a total underspend of more than £1 billion. At a time when many public services are seeing quite heavy workloads and tight budgets, and when services are being cut and some capital projects are being cancelled or paused, that does not make sense. What happened to the £1 billion?

Joe Griffin: I will bring in Jackie in a moment, but the overall underspend does not represent a loss of spending power to the Government. The £1 billion includes non-cash elements such as depreciation and ring-fenced, annually managed expenditure that cannot be used on day-to-day costs or deposited in the Scotland reserve.

The outturn underspend of some £557 million, which we reported provisionally in June, reflects the sum that can be carried over. That £557 million was allocated as part of the 2025-26 autumn budget revision that was published on 25 September, and that is money that can be spent on public services or other spending choices.

Jackie McAllister: The first thing to say is that we cannot overspend our budget. We can underspend but we cannot overspend even by a pound, otherwise we would have our accounts qualified. We must always manage to a level of underspend.

The permanent secretary set out that the underspend in the accounts is against the budget that is voted on by the Parliament through the spring budget revision, and that includes a significant proportion of ring-fenced and non-cash budgets that we cannot spend on anything other than their purpose, including depreciation provisions and changes in valuation.

Inherently, those types of budgets are quite volatile, so we must always plan our requirements for them prudently. The spending power—the budgets that you would attribute to supporting public services—is, as the permanent secretary said, what we report at the provisional outturn and the final outturn. That £557 million was reported at the provisional outturn, so the final outturn will be the amount that we will carry through. That has been fully allocated into the 2025-26 budget. There is no loss of spending power.

With a budget of £60 billion, it is very difficult to manage to 31 March. In particular, and increasingly with the Scottish Government budget, there is expenditure that we do not get confirmation of until well after 31 March. The permanent secretary spoke about the social security spend that is administered by the DWP. We do not get that final information until well after 31 March. In addition, we have the Audit Scotland audit and all the other audit arrangements that happen after 31 March, so we have to provide for audit adjustments. Because they are consolidated accounts, that involves audit adjustments for not just the Scottish Government but all the bodies that are consolidated into the accounts.

In summary, we will always have a level of underspend. We have the Scotland reserve, and we always deliver an underspend within the limits of that reserve. The underspend is always carried forward and utilised in each year, so there is no loss of spending power.

Jamie Greene: It sounds as though roughly half of the underspend was rolled over to the next financial year and spent accordingly, and that, with about half of it, you could not do that, due to its nature. That is helpful information. I appreciate the wider context, but I thought that it was important to check that.

Another issue that the Auditor General raises in the “Financial sustainability and taxes” report, and on which we have heard evidence in person from Audit Scotland, is to do with tax revenues in Scotland resulting from devolved policy decisions. I appreciate that those decisions are made not by civil servants but by Governments and, indeed, that they feature in budgets that the Parliament passes. However, there is still a wider question.

The Auditor General raises the valid point that, for 2025-26, £1.7 billion of extra tax will be raised in Scotland through policy choices that the Government makes, but that that will net only £616 million of benefit to the Scottish budget. Those are the Auditor General’s numbers. That is about a third of the amount raised—it is slightly better than the figure the year before. However, about 33p in the pound is reaped for the benefit of all your directorates to spend on public services. How are

we going to fix that problem? How will we ensure that the £1.7 billion that we raise in extra taxes is available to the Government to spend on public services? At the moment, we are nowhere near that.

Joe Griffin: I will bring in Shona Riach to cover that in a bit of detail, but that relates to the comment that I made a moment ago about the fiscal framework and the relative economic performance of Scotland against that of the rest of the UK, which has an impact on the revenues that accrue to the Government.

Shona Riach: We are in discussions with the UK Government about the next review of the fiscal framework, and the issue that you raise will be under discussion in that review, which is due in 2028. We recognise that, with the previous review, in 2023, there was a significant lead-in time, so we have agreed with the UK Government to begin preparations for the review and, specifically, to begin discussions on the scope of the review and what should be covered in it.

The 2023 review was somewhat narrow in scope, due to the views of the former UK Government, and our ministers are pushing for a broader scope for the next one. That will be the opportunity to consider the appropriate balance between the powers that are devolved to the Scottish Government and the fiscal levers available to it to manage budget volatility. The issue that you raise relates to the calculations around the block grant adjustment relating to taxes, which is something that we will seek to include in the scope of the review of the fiscal framework.

Jamie Greene: Forgive me, but my question is about why people are paying more tax when the Government does not have more money to spend. The answer to the question is not a technocratic one about the fiscal framework. It sounds to me as if you are pinning all your hopes on a review to fix the problem. Page 4 of the report makes it clear what the problem is. It states:

> "The relative performance of the tax base, such as growth in wages and employment, in Scotland compared to the rest of the UK is a main driver of these differences."

That is what I am looking for an answer on. How will we fix that problem, not the fiscal framework?

Shona Riach: I think that there is some debate about the cause of the issue. The Auditor General's report is very much informed by the view of the Scottish Fiscal Commission, which we have huge respect for—

Jamie Greene: What is the debate? Where is the conflict? What do you not agree with?

Shona Riach: The issue is about what factors are relevant to the size of that gap. Scottish Government analysis suggests that the factors are not purely related to economic performance but include behavioural impacts and, significantly, structural differences between Scotland and the rest of the UK that predate devolution. We believe that that can be addressed and that progress can be made on it in the review of the fiscal framework.

10:45

Jamie Greene: You do not think that Scotland's relative economic performance in relation to wage growth and employment growth is the problem.

Shona Riach: There is certainly an issue with wage growth, but it is compounded by Scotland's wage structures being different from those in the rest of the UK and, in particular, the fact that the UK economy is driven to such a large extent by the economy of the south-east of England, where there are particularly high salaries in the financial services industry, whereas wage growth in Scotland tends to be distributed across the whole of society.

Jamie Greene: Would a high-wage Scotland not be the answer to that problem, rather than blaming another part of the UK?

Shona Riach: The Scottish Government is committed to increasing growth and, therefore, wages in Scotland. That is at the heart of the Government's priorities. However, I do not think that this particular issue is the only problem that is causing the gap.

Jamie Greene: In the interest of time, I will leave it there.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I will follow a slightly different path. Let us have a wee chat about the transparency and public understanding of devolved taxes. I think that everybody's understanding of taxes these days is pretty tenuous, given the complexity of the tax system, but the annual survey of Scottish taxpayers' attitudes indicates that about 50 per cent of Scottish adults feel that they do not understand Scottish taxes, while about 40 per cent say the same about UK taxes. That has been the case probably for the past five years.

The Scottish Government considers it important that there is transparency and that people understand their taxes, but clearly they do not. What are the Government's plans to improve the transparency and presentation of information on the devolved tax system, so that more Scots can understand where their money is going and, as part of that, the impact on the Scottish budget?

Joe Griffin: I will kick off and then invite Shona Riach to come in.

The Auditor General's report in November includes some really helpful recommendations that cover exactly what you have suggested. In the budget that was presented to the Parliament last month, we were able to do a couple of things to take account of those recommendations and respond to the Auditor General's point of view. I ask Shona Riach to talk about that in a bit more detail.

Shona Riach: As you said, Mr Beattie, the Government is committed to improving transparency and increasing understanding of tax across the whole population. The budget document sets out a range of information on tax, including the Scottish Government's tax policy decisions and forecasts of tax revenues. This year, in direct response to the Auditor General's recommendations, we published, alongside the budget, an additional document that sets out forecasts of devolved tax revenues, block grant adjustments, net positions and policy costings. We also published a short key facts document, which was designed to be as accessible to as many people as possible.

We continue to work on improving transparency and understanding. As the permanent secretary said, the Auditor General's recommendations are very helpful in that regard, and that will continue to be a priority.

Colin Beattie: Given that the survey results show that attitudes have not changed in the past five years—the level of understanding has stayed the same—whatever is being done is not enough to get through to people. Otherwise, after five years, we would see some changes in the percentages. Why are UK taxes easier to understand than devolved taxes?

Shona Riach: Improving transparency continues to be a work in progress for us. As I said, additional measures were taken around the budget that was published in January. We will continue to do all that we can to make progress on the issue.

Colin Beattie: I am interested in knowing what is being done to improve tax literacy. The Government has published tax literacy objectives, but what further work is planned? You have talked about putting out a simplified document to improve public understanding and awareness, but how will that differ from what you have done before, and how can you assess its impact?

Shona Riach: As you said, we publish information on tax literacy. We will continue to do that and to monitor progress. The Scottish Government's view is that tax literacy is an important area where we seek to make progress. That is why we took further steps to increase transparency around the budget in January.

Colin Beattie: The concern that I keep coming back to is that there has been no movement for five years. What will you do differently to change that?

Joe Griffin: It is probably fair to say that we do not have a specific, detailed plan yet. The Auditor General's recommendations came out in November. They were a helpful stimulus to address a situation that had already been identified. The team that would be responsible for doing so were heavily engaged in producing the budget in January. It is an issue that we want to work on, and we will happily come back to the committee when we have a more detailed prospectus, but it is work in progress, and there is nothing that we can describe to you this morning, Mr Beattie.

Colin Beattie: I will move on slightly to tax and economic strategies, which go very closely together. Without economic growth, there is no tax growth and, therefore, no improvement to public services—it is very simple. It makes sense that those two strategies should be completely aligned. What impact will the Scottish Government's economic strategy have in terms of strengthening the tax base in order to support the fiscal stability and sustainability that we are looking for over the medium term?

Joe Griffin: I will ask Gregor Irwin and Shona Riach to do a double act on that question.

Gregor Irwin: I will pick up on some of the related questions that have been answered already. The data on gross domestic product per capita, which is an average across the population, suggests that, over a reasonably long time period, Scotland has been doing a bit better than the rest of the UK. That is an important reference point for considering Scotland's economic performance, although it does not mean that there is not room to improve that performance.

The key to strengthening the tax base is to build on that. Shona Riach has already mentioned the distribution of income in the economy and how it compares differently from that in the rest of the UK, which is partly because of the effect of London and the south-east. We need to be mindful of that.

However, to be blunt, what is good for growth is good for the tax base, and that is by and large the Government's approach. The budget includes considerable investment through the enterprise agencies to support growth through exports and investment. It also includes funding through the Scottish National Investment Bank to support place-based growth and to invest in some of the most important scaling businesses in Scotland. That will help drive up productivity, which is relevant to gross domestic product per capita and the richness of the tax base. I could point to various other elements, such as our place-based

work through city and region deals and our work to strengthen regional economic partnerships. We can do more through those partnerships to improve productivity across the whole of Scotland. We currently see differences in productivity across Scotland.

There are other programmes where we can point to quite good progress having been made in recent years, such as the work that we have done on employability and fair work, which helps to bring people into employment and increases the employment rate. The work that we are doing on fair work helps to improve people's terms and conditions while they are in employment. We have seen good progress on that and there are good comparisons with the rest of the UK in relation to the percentage of people who are being paid the real living wage. That work is important and is relevant to the question of the tax base. It also helps to reduce the burden on public services.

That does not get directly to the question of the distribution of income and how it compares with the south-east of England and London, which is one of the factors that influences the overall tax position. We have seen progress on the linkage between the growth programme, the support that we provide through enterprise agencies and others, and the imperative of raising the rate of investment, which must be done if we want to raise productivity and is intimately linked to the question of the tax base. Obviously, there is more progress to make on that.

Colin Beattie: The report notes that there are developing relationships across tax and economy teams in the Scottish Government. That implies that it is not quite there yet and that there is some distance to go. However successful it might have been until this point, why was that work not done before? It is pretty basic: tax and economy go together and impact each other.

Gregor Irwin: Indeed. Shona Riach may want to pick up on that. To be honest, I think that we work closely together. Of course, the fiscal framework has evolved over time, as has the Scottish Fiscal Commission's methodology and approach. We work very closely with exchequer colleagues on the linkage between growth and the tax base and on other areas as well.

Shona Riach: I very much agree with what Gregor Irwin is saying. Colleagues in the exchequer and DG economy work extremely closely because of the very point that you have raised, which is the central importance of the economy and economic growth to the tax base.

Colin Beattie: How do you quantify the direct impact of any individual set of economic interventions on tax revenues? The report notes that that is difficult to do, but there must be some way to do it; otherwise, fiscal policy would be a bit wobbly.

Shona Riach: We are in close dialogue with the Scottish Fiscal Commission about that. The commission provides costings for all tax policies and has increased the work that it does to look at the broader impact of economic policy measures on the tax base.

Colin Beattie: Are we satisfied with the outcomes of that?

Shona Riach: It is difficult to measure. We are pleased that the Scottish Fiscal Commission is looking at it and taking the work seriously, but ministers believe that more work could be done on that.

Colin Beattie: I am concerned that there is any gap between the economic policies and the tax policies that are being developed, because they are so interdependent. It is simple: one impacts the other. I would like to know how we are going to strengthen the alignment between tax and the economic side. In reading the report and from some of your responses, it seems to me that it is not quite as tight a relationship as it should be.

Shona Riach: The medium-term financial strategy sets out a clear and comprehensive view of the extent to which tax contributes to closing the projected fiscal gap, which absolutely goes hand in hand with the Government's economic planning. I assure you that teams are working extremely closely on these things and that, when we look at tax policy, we consult closely with colleagues in DG economy about the impact of such policy on economic growth. When Gregor Irwin and his colleagues in DG economy look at economic growth interventions, one of the issues that they are thinking about is the potential for positive impacts on the tax base.

11:00

Gregor Irwin: Mr Beattie, we have been exploring with the SFC and exchequer colleagues a more formal methodology for doing just that—scoring the growth impacts of economic policies. That remains work in progress, and it is, of course, ultimately a choice for the SFC.

However, it is quite important for us, too, not only because of the impact on the growth forecasts that we will see in due course, but because such an approach creates a good feedback loop into policy making within Government. I think that that is one of the issues that you are alluding to—it is that virtuous cycle of good policy being reflected in forecasts for the economy, thereby growing the tax base and, in turn, impacting on our approach to developing good policy. We are seeking to develop that framework further.

You will, of course, take evidence from the SFC on similar issues, but I can say that it is mindful of the Office for Budget Responsibility framework for the rest of the UK. The Governments are different, as are the circumstances in which we operate, but there are parallels between what the OBR does and what the SFC does in this regard. From my perspective, though, we are making progress there, and it is a very positive development.

Colin Beattie: Thank you.

The Convener: I have just one very quick question related to what you have been talking about. Is there any plan to provide an updated analysis of GDP versus gross national income? Is there not an issue with relying on, say, foreign direct investment for economic growth in that it might bring income tax receipts and benefits but the overall impact can be quite extractive?

Gregor Irwin: There is no specific plan to do that at the moment, but our chief economic adviser's team produces a range of statistics and analyses, and that is one of the issues that it will consider on a regular basis.

The Convener: Okay. Thanks. I have got that on the record, anyway. I now invite Joe FitzPatrick to put some questions to you.

Joe FitzPatrick: I want to go back to some of Jamie Greene's questions about the fiscal framework and the difference between the tax take and its financial benefit to Scotland. I think that Shona Riach mentioned the structural differences, one of which is the financial sector. Across the world, perhaps, but certainly in Europe, it is not unusual for financial jobs to coalesce around the capital city, because that is where the institutions are. I just want to probe that a little deeper. If we were to take London and its very overheated economy out of the fiscal framework calculations, what impact would that have?

It also seems to me that, when it comes to some of the other structural challenges that we have, one in-built challenge is that jobs in London have a London weighting, which means that someone doing exactly the same job in the civil service in London gets paid more. How can we ever overcome that, given that it is built in?

Joe Griffin: I will give that a go, and Shona Riach might want to come in, too. Indeed, I think that this was what she was alluding to with regard to the next review of the fiscal framework. These things happen periodically, but the fact is that, if you are basing your tax revenue or intake partly on a differential economic performance between Scotland and the rest of the UK, including London and the south-east, reflecting earnings growth, you are always going to be presented with the sorts of structural problems that Shona was describing. That is the relevance of the review of the fiscal framework. It is to establish whether these things are still fit for purpose or whether there is a different way of addressing the situation.

Joe FitzPatrick: One of the challenges that we face, which I think the Scottish ministers have recognised, is the risk of behavioural change as we change tax levels in Scotland. We need to be mindful of that risk, and the Government has said likewise.

We are keen to understand what work is being done, so that the Government can understand what behavioural change is happening and what the risks are in that regard. Are more tools being developed to finesse the Government's understanding as the tax policies in Scotland and the rest of the UK diverge?

Shona Riach: The issue of behavioural change relates not only to divergence between Scotland and the rest of the UK but is an issue that the Scottish Government—indeed, all Governments—will look at as a routine part of developing tax policy. We work very closely with the Scottish Fiscal Commission on the issue. As I have said, it is responsible for costing proposals for changes in tax policy, and the analysis that it does very much informs the decisions that the Scottish Government takes about the setting of income tax and other devolved taxes. We are very grateful to the Scottish Fiscal Commission for the work and analysis that it does, including an assessment of the behavioural impacts of different options for changes to tax policy.

Joe FitzPatrick: Are you confident that the tools and the relationships that you currently have provide robust answers with regard to the risks of behavioural change?

Shona Riach: I am. We have a great deal of confidence in the work of the Scottish Fiscal Commission, whose independence and expertise we benefit hugely from. The commission's level of expertise and degree of independence mean that we can be confident of the robustness of its analysis. It is an important part of our policy-making process that that analysis is fed in to us at such a point that it informs the decisions that the Scottish ministers take.

Joe FitzPatrick: My last question is about VAT assignment. Where is that sitting? There is great concern about the fact that that process is not moving at any pace. Where do you think we are with that?

Shona Riach: You are right to say that that process is not progressing quickly. We continue to discuss the issue closely with the UK Government. Following the conclusion of the most recent fiscal framework review, and in the light of the concerns

that were raised by the Finance and Public Administration Committee, the Scottish Government and the UK Government agreed to work on future options for VAT assignment. The matter was most recently discussed at the recent joint Exchequer committee meeting between the Cabinet Secretary for Finance and Local Government and the Chief Secretary to the Treasury.

Despite collaborative engagement between the Scottish Government and the UK Government, concerns remain about the substantial uncertainty and the volatility associated with the proposed assignment methodology, which would pose significant risks for the Scottish budget without conferring on us any further fiscal or policy powers to help us to manage that. Similar concerns have been raised with the Scottish Parliament's Finance and Public Administration Committee and the UK Parliament's Scottish Affairs Committee, which have been told by external experts that they agree that VAT assignment would cause problems.

Although we remain committed to fulfilling the Smith commission's recommendations, we need to protect the Scottish budget from unnecessary levels of risk. Our ministers will continue to discuss the matter with UK ministers.

Joe FitzPatrick: So, there is currently no timescale. Is the issue of VAT assignment likely to be rolled into the fiscal framework discussions?

Shona Riach: It would be our hope that that could be discussed as part of the fiscal framework discussions. However, it is also regularly discussed whenever the UK and Scottish Governments meet to discuss fiscal issues.

The Convener: We have time for one final, short question from Jamie Greene.

Jamie Greene: I apologise—I forgot to ask this question earlier, when we were looking at strategic commercial assets. I am not sure whom to direct it to. Prestwick airport came into public ownership some 16 years ago, and the plan was to return it to the private sector. A deal was in play in 2020, which fell through. Five years on, another deal was on the table, which fell through in November last year. We get little information about the nature of the deals—everything is cloaked in secrecy on the basis of commercial confidentiality. However, at the end of the day, the airport is publicly owned, so I am seeking a bit more transparency today. Why did the latest deal fall through? Should the Government give up trying to sell the airport?

Joe Griffin: I will ask Gregor Irwin to comment on that.

Gregor Irwin: As, I am sure, Mr Greene will be aware, we ran a market testing process over an extended period that resulted in a number of expressions of interest. We ran a good process using external advisers, where appropriate, commercial advisers and legal advisers. We reduced the group of interested parties down to a single preferred bidder and progressed very detailed, intensive negotiations over the sale of the airport. As you will have heard the Deputy First Minister announce towards the end of last year—I think that it was in November—the preferred bidder withdrew from the process. That was a decision for them. I am afraid that I cannot give reasons on their behalf as to why they chose to—

Jamie Greene: They must have told somebody in the Government why they were pulling out. They would not just walk away from the deal with no reason or explanation—I just find that hard to believe.

Gregor Irwin: They chose to withdraw, which was their prerogative. I am afraid that I cannot speak on their behalf.

That is inherent in a process of this sort. These processes always get to a negotiation with a single party, although one or two other parties might still be in the background. It is a process in which you enter into exclusivity and you have a negotiation with that party on a confidential basis, and it is possible that no satisfactory conclusion is reached for either party or both parties. In this case, the preferred bidder withdrew.

I am absolutely confident in the strength of interest in the airport as a commercial entity, which the process has revealed. Its economic importance is growing, its operational performance has improved throughout, and it now has a very well-diversified set of operations. It employs more than 500 people, which, in itself, is an extraordinary performance. The increase in freight business cargo has strongly underpinned the recent improvement in performance, but it is a well-diversified business.

We will, of course, advise ministers on the full set of options for Prestwick airport, and I am sure that they will update Parliament as and when that is appropriate. The airport continues to play a really strong, important role in the Ayrshire economy.

Jamie Greene: It sure does.

The Convener: On behalf of the committee, I thank Jackie McAllister, Gregor Irwin, Shona Riach—although you are not going anywhere, as you are on the next panel, too—and the permanent secretary for your evidence to us this morning. There may be some areas that we will want to follow up with you. Thank you for your candour.

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

11:13

Meeting suspended.

11:20

On resuming—

Section 22 Report: "The 2024/25 audit of Historic Environment Scotland"

The Convener: I welcome everybody back to this morning's meeting of the Public Audit Committee. We have had a changeover of witnesses. I am pleased to welcome a new set of guests who have joined us for consideration of "The 2024/25 audit of Historic Environment Scotland". I welcome Katerina Brown, who is the chief executive of Historic Environment Scotland; Sir Mark Jones, who is the chair of the board; and Stephen Uphill, who is the chief operating officer. I am also pleased to welcome back Shona Riach, who is the director general exchequer, strategy and performance, who was with us for the earlier evidence session, and to welcome Kenneth Hogg, who is the director for culture and external affairs—both from the Scottish Government.

We have some questions to put to you but, before we get to our questions, I invite Katerina Brown to open up with a short statement.

Katerina Brown (Historic Environment Scotland): Thank you, convener.

I thank the committee for inviting me to give evidence. As a chartered accountant, a fellow of the professional body and a former auditor, I welcome the Auditor General's section 22 report. When I started in my role in September 2024, I welcomed the work that allowed us to agree a new business model with the Scottish Government. That model enables us to reinvest additional income into the care and maintenance of our cultural assets and to support us in the many challenges that we face.

As any new CEO would, I sought to understand how the organisation functioned. As I did so, it became obvious that there were many areas of development around compliance, governance and culture. I reported those areas of concern to the board in November 2024 and February 2025. As a follow-up to those concerns, I directed our internal audit function to identify specific areas in which we could improve, working with the executive leadership team and the audit and risk assurance committee.

As a non-departmental public body, we have a statutory responsibility to be the custodian of Scotland's cultural heritage. We are the regulator for historic buildings and scheduled monuments, and we must ensure financial prudence in how we manage public money. My duties as accountable officer cannot be delegated and I am working closely with the newly appointed interim chief

operating officer to oversee the stewardship of the organisation, in line with my duties as chief executive and accountable officer.

The section 22 report, along with the external review conducted by David Martin, will give us the necessary tools and insights to make further improvements in how HES performs as an organisation for its staff, its responsibilities and the many people we welcome to our sites across Scotland.

The Convener: Thank you. For the record, Ms Brown, you said that you accepted the recommendations and findings of the Audit Scotland report. I look to you and to Sir Mark Jones to confirm that that is the case.

Sir Mark Jones (Historic Environment Scotland): It is the case, yes.

The Convener: Sir Mark is nodding. I put the same question, which we raised with the permanent secretary earlier, to Shona Riach. Is that the position of the Scottish Government, too?

Shona Riach: Yes, it is.

The Convener: Thank you for that clarity.

I have a couple of opening questions before I invite the rest of the committee to put some questions to you.

Mr Hogg gave evidence to another committee of this Parliament recently, in which he said that you, Ms Brown, were investigating some of the things that were highlighted in the section 22 report. He said that you were investigating the electronic purchasing cards, travel expenses, data protection failures and the alcohol bill from a leaving do, which is highlighted in the report. You were investigating those things—was that linked in any way to your absence from work?

Katerina Brown: The short answer is no. On joining, I undertook a number of activities to understand how the organisation worked. All those predated the period of absence. There were regular meetings with the executive leadership team and with staff across the country, and I approved expenses on behalf of colleagues and attended various committees in the organisation. Numerous issues came to light, of various scales, and they were reported to the board and committees, specifically on the matters that have arisen. They were raised at meetings of the audit, risk and assurance committee in November 2024 and February 2025 and, subsequent to that, our internal audit function undertook reviews of those areas over a phased period of several months.

The Convener: I think, Ms Brown, you felt that you were treated unfairly by the board and you reported that to the Scottish Government. Again, was that around your investigation into those areas that you have identified?

Katerina Brown: On 2 May, I visited my general practitioner because the situation at work had become extremely difficult. On her advice, I was signed off work to protect my health and wellbeing. That is something that I had never done before in my career.

The Convener: I am sorry to hear that. Following up on that, Mr Hogg or Ms Riach, can you tell us how the Scottish Government responded to Ms Brown's view that she was being treated unfairly by the board of the organisation?

Shona Riach: During that period, we were in close contact. Ms Brown and I spoke regularly. We were keen to facilitate good working between the CEO and the board. We made clear to Ms Brown that any complaints that she wanted to make would be treated fairly and investigated fully. We also discussed with the board the possibility of bringing in mediation to work with the senior team to resolve some of the issues that had become clear. Throughout this whole period, we were in close contact both with Ms Brown and with the board. Kenneth, do you want to add anything to that?

Kenneth Hogg (Scottish Government): No, I do not think so.

The Convener: Mr Hogg, I will ask you something that we raised with the principal accountable officer earlier this morning and which is the top line in the Audit Scotland report. Why, for six months, was there no interim accountable officer in place?

Kenneth Hogg: The first thing to say is that we recognised the seriousness of the situation, and it is something that we actively addressed throughout the period. This was not a case of not paying attention.

The first option was to resolve the situation with the existing accountable officer and chief executive officer. It is important to say that the status that Ms Brown has described was not the case throughout her entire five-and-a-half-month absence. After the first two months—Ms Brown may want to comment more on this—she indicated that she wished to return to work, and I can say more about that.

The accountable officer should be the chief executive officer, and that was the first option. When it became clear, however, that, despite Ms Brown's intention and wish to return to work, and despite the querying that we had carried out about the rationale for her on-going absence, the board nevertheless did not want her to return to work, we explored other options.

We first explored whether there was anybody else internally, in line with the provisions of the Scottish public finance manual, who could be appointed as an interim chief executive and, therefore, interim accountable officer. Had there been a permanent director of finance in place, that would have been one option, but that was not the case. Had there been a chief operating officer at that time, that might have been an option, but that role did not exist at that time.

We also considered the other senior directors of the organisation, who, for various reasons, were also not available to be appointed, largely because of their own involvement in some of the on-going proceedings.

11:30

Therefore, we looked at external candidates. On 2 July, following a request from the board chair at the time, Hugh Hall, we offered the names of three candidates, all of whom were former chief executives and accountable officers, as options to bring in as an interim CEO. The board preferred a fourth candidate whom it had identified. I met that individual on 20 August and confirmed there and then that we would happily appoint them as an acting accountable officer. That did not progress.

In summary, the lack of an accountable officer or an interim accountable officer during that period did not result from a lack of trying. We explored every possible option to achieve the appointment of one.

The Convener: You understand, Mr Hogg, why the Scottish public finance manual requires that there must be an accountable officer in every organisation, including a non-departmental public body. There are reasons for that related to ensuring that public money is spent wisely—that there is value for money and economic efficiency in organisations and so on.

If somebody who had been approved by the board was also approved by you as the Scottish Government sponsor person three months into the absence of Ms Brown, why did that appointment not happen and why was there a further three-month wait before somebody was put in post?

Kenneth Hogg: In the case of the candidate who was put forward by the board, the first thing that needed to happen was for the board to appoint that individual as interim chief executive. The accountable officer must be an employee of the organisation—that is provided for in the Scottish public finance manual. There literally was not somebody in place whom we could designate accountable officer. The sequence had to be that, first, they were appointed by the board to a position in the organisation and then the principal accountable officer, Joe Griffin, would have delegated to them responsibility as the interim AO.

I completely accept your comments about the importance of the accountable officer role in ensuring regularity, propriety and value for money in relation to public expenditure. Those were the very reasons that made addressing the situation my number 1 priority in my role.

The Convener: Okay, thanks. Other members of the committee might return to some of those matters, but I now invite the deputy convener to put some questions to you.

Jamie Greene: Good morning to the witnesses. I will carry on the same line of questioning. The Auditor General gave evidence to the committee just a few weeks ago; I presume that you followed that session closely in preparation for today. The Auditor General said in that meeting:

> "when it became clear that the accountable officer was going to be absent for more than a month, the Scottish Government ought to have appointed a substitute".

He also said:

> "We have seen a lack of clarity in why the Scottish Government chose not to appoint an accountable officer".—[*Official Report, Public Audit Committee*, 14 January 2026; c 27, 9]

Ms Riach, do you agree with that conclusion that the Auditor General gave us?

Shona Riach: I would not say that the Scottish Government chose not to appoint an accountable officer. As the permanent secretary said this morning and as Mr Hogg has just set out, we were very actively seeking to appoint an interim accountable officer. For the reasons that Mr Hogg has given, that was not possible.

I absolutely agree with the view that it is regrettable that there was not an accountable officer in place for that prolonged period. That is why, during that period, we were taking every action that was available to us to try to put someone in place. Frankly, it is also why we were working closely with the board to look at options for an interim CEO and accountable officer, even though our first preference remained for Ms Brown to be put back in post and therefore able to perform her duties and responsibilities as an accountable officer.

Jamie Greene: I cannot get my head around the fact that an organisation as big and well known in Scotland as this, with such a high-profile role as a public body, could not find a single person in the whole organisation who could step up to the mark for a few months. How is that possible? Did no one want to do it? Was nobody suitably qualified? Were there relationship issues between senior executives and the board, or did you have issues with the board itself?

Kenneth Hogg: I am happy to respond to that. The Auditor General, in his section 22 report and in his previous evidence to the committee, touched on some of the issues. He highlighted instability in the senior leadership of the organisation. Part of the answer to your question is that there was not, for example, a permanent finance director in post.

Jamie Greene: It did not need to be a permanent finance director who stepped up to the mark. My question is whether there was a lack of willingness to do the role or a lack of competence.

Kenneth Hogg: If we are talking specifically about the organisation's existing directors, it was the view of the Scottish Government and the chair of the board that nobody was available who could be appointed as an interim accountable officer, because their candidacy for such a role would be compromised by their own participation and involvement in some of the on-going issues. Had somebody been available in that category, they would have been our first option.

Jamie Greene: I can see why that makes sense. How many people are we talking about here? When you say the directors, do you mean the executive managers in the organisation, or do you mean people who sit on the board?

Kenneth Hogg: I apologise—I specifically mean the most senior staff. Under the Historic Environment Scotland Act 2014, somebody on the board cannot be appointed as chief executive. Such an option was considered and quickly rejected, because it is ruled out by statute and the Scottish public finance manual in combination.

Ms Brown can clarify this, but we are talking about approximately six or seven—

Katerina Brown: Seven.

Kenneth Hogg: —senior individuals, some of whom were in roles that meant that they would not have lent themselves as ideal for a financial control role. However, some of them were, and it is those individuals who we, along with the former chair and, I presume, the board, considered. The former chair confirmed to me that the board's preference was instead to bring in a candidate who was not an existing member of staff. That was the route that he asked me to pursue.

On 8 August, a specific individual was referred to me. I corresponded with that individual and met them on 20 August. Given their relevant background experience, I confirmed that I was happy that they understood the role of accountable officer. They had been in a senior role at a public service organisation previously, and all that needed to happen was for the board to appoint them to, frankly, any senior executive role—the role that was being discussed was interim chief executive. Had the board done that and made them an employee of the organisation, the Scottish Government would have immediately delegated to them the role of interim accountable officer.

Jamie Greene: Why did that not happen?

Kenneth Hogg: I actually do not know. It is a matter for the board as the employer.

Jamie Greene: Let us ask the board. Sir Mark, why did the board not approve proceeding with the Scottish Government's recommendation?

Sir Mark Jones: I was not there at the time, and I am not certain of the board's thinking on the issue. When I became chair, it seemed to me that the most straightforward way to deal with it was to ask our existing chief executive and accountable officer to come back into function, which is what happened.

Jamie Greene: I appreciate that you were not there, and people's roles change, but are there any minutes of board meetings at which the matter was discussed, so that we know how the decision was reached? The Scottish Government does not even know, so how on earth will we ever know?

Sir Mark Jones: I am afraid that I do not know which process led the board to decide not to appoint the individual in question.

Jamie Greene: Okay.

Sir Mark Jones: I think that the person in question was a former trustee of Historic Environment Scotland, and there was some anxiety that somebody who had recently been a trustee might find it difficult to carry out the role of chief executive without running into what were already difficult relationships between the board and the chief executive.

Jamie Greene: Goodness. I appreciate that, if you do not know, you do not know—it is perfectly fine to be honest with us.

Reverting back to the Scottish Government, then, I have to say that I find it difficult to imagine how you can come to the committee and say, "Oh, I don't know why they didn't proceed." Did you ask?

Shona Riach: Can I answer this question? The other point that is very relevant here is that the board was also in very live discussions with Ms Brown about what was going to happen next with regard to her position. It was not straightforward and, ultimately, the board took the decision to suspend Ms Brown.

The Scottish Government was having very live discussions with the board about the rationale behind that decision, and my view is that the reason for the board not pressing ahead was that those discussions were very live at that point in time and that it would have been inappropriate for

it to appoint an interim CEO when it was also in very active discussions about whether its current CEO could return. That was the complicating factor.

Jamie Greene: Yes. There is a difference between someone being off sick for a few weeks and being off for six months.

Shona Riach: Yes.

Jamie Greene: That had been on-going and, of course, discussions were live and on-going, too, as is normal in such scenarios. However, the Scottish Government has a duty in this respect. It was not unfortunate, or regrettable, that no accountable officer was appointed; it went against statutory requirements not to appoint one. It was in breach of the manual.

Shona Riach: We absolutely recognise that, and that is why, as Mr Hogg has set out, we were in such live and active discussions and exploring all possible avenues to appoint an accountable officer.

Jamie Greene: Okay. I will move on, because I think that there is a wider issue here. From all that I have been hearing in our evidence sessions, it strikes me that there is what sounds like an absolutely horrific culture at the very top of a large public body that is publicly funded and that receives huge amounts of public cash. Indeed, it also has a huge responsibility with regard to our historic and cultural sector, and we all want it to succeed. However, we have just heard, in that extraordinary exchange, that six or seven senior directors of the organisation were unwilling, or unfit, to step up to take it over on a short-term basis. There have been on-going issues between the board and the chief executive, and, as far as I know, live proceedings might be under way in that respect—I do not know. This does not point to a happy ship in any way, shape or form. What on earth has the Scottish Government been doing for the last year?

Shona Riach: You have correctly identified some serious concerns, which is why the Scottish Government has been in such active and regular contact with HES both at board level and at senior executive level, as well as, via our sponsorship team, with lots of individual parts of the organisation. When Ms Brown was appointed to the role of CEO, we discussed the importance of her looking at all aspects of the business, including governance and accountabilities. She was taking forward that important work, which we very much saw as a necessary part of assuring ourselves about what was happening at HES. Unfortunately, that work uncovered some substantive concerns that, since then, we have been working collectively and together on finding a way through and resolving.

Jamie Greene: Other members will go into those issues in more detail during the session, but, as the convener has alluded to, it seems that, according to the timeline of events, someone new was brought into the organisation, did a valid piece of work to uncover challenges with governance procedures and practices and with leadership and, in doing so, unearthed what were clearly unacceptable behaviours and practices. The board were clearly unhappy with that, as were other senior members of staff, and the individual was then off sick.

I do hope that you are okay now, Ms Brown, and I hope that you are being properly supported by the organisation and the board.

Katerina Brown: Yes, thank you.

Jamie Greene: Good.

11:45

Katerina Brown: It might be helpful to add that I contacted both the organisation and the Scottish Government multiple times throughout that period to inform them of the absence—in particular, at the point when the absence would exceed four weeks, which is in line with my duties as accountable officer. At that point, in May, I indicated that the absence would be approximately another two to four weeks, which covered the period of May and June, approximately—I did that.

In July, I wrote to the board and the Scottish Government to say that I was fit and ready to return to work. There was a point in July when I notified them of my intention to return to work on 28 July. However, at that point, I was advised by the board not to return. There was a series of attempts to return to work, which were communicated to the Scottish Government. The sponsor team was fully informed, in line with my duties.

It is worth saying that it was not an entire period of six months' absence. It was two months of absence, and then four months of attempted return. There was a point in August, starting on 22 August, when I commenced a series of meetings with the board and a member of the Scottish Government sponsor team to discuss what the return to work and the accountable officer duties would look like. I was signed back on, but we had those meetings first. Between August and September, there were steps to return.

Jamie Greene: Did you get the impression that they just did not want you back? I am sorry to be so direct, but I think that that is the only way in which we will get to the bottom of this.

Katerina Brown: I was advised by the board that they had received a letter addressed to them

containing allegations against me, and they advised that I refrain from work until the allegations were investigated.

Jamie Greene: Do you think that you ruffled some feathers when you undertook the work that you did to unearth those governance issues when you joined the organisation?

Katerina Brown: It was clear to me, even in the recruitment process, that there were challenges with HES. There was a well-known understanding that it was 10 years old as an NDPB, so it was evolving. Part of the recruitment—indeed, part of the reason why I was attracted to the role in the first place—was that it was clearly a transformational role to help to improve the organisation. It was acknowledged that many organisations rightly admit that they have problems. I had some awareness that there would be issues to address.

Jamie Greene: I will take that as a diplomatic answer, and I will not push it any further for now.

The Convener: I invite Colin Beattie to put some questions to Ms Brown.

Colin Beattie: I would like to cover specific issues on governance and one or two of the activities that have come to light. What I am not clear about—I hope that you can explain this to me—is how long those cultural practices had been carrying on in HES. Everything that we have seen has been fairly recent. Is it a fairly recent thing, or has it been going on for years?

Katerina Brown: I can contribute to that. When I joined, I produced a summary of some matters that were unresolved—I called them "inheritance" matters—which were of varying durations. Some had been unresolved for a year or two, and there were some bigger, well-known challenges that would take longer, such as capital work. Any organisation has a pipeline of matters that it is dealing with, and that was quite apparent at HES.

Some of the more challenging observations were around how we were structured—simple layers of efficiency, which some people called bureaucracy. There are many layers and grades in HES. It had recently undergone a restructuring of roles and responsibilities with a view to improve that, so there was a bit of settling in after that reorganisation.

My observations could be summarised by saying that it was evolving as a body. There was no evidence of any deliberate matters or anything of any serious concern. It was an organisation that had an opportunity to improve itself on matters that were within its own gift, such as efficiencies and how it was structured.

Colin Beattie: To your knowledge, were any issues raised with the board in previous years in relation to irregularities or non-compliance with the rules?

Katerina Brown: I was not aware of areas of non-compliance that were long standing. I was aware more of inefficient practices in the way that the organisation is structured and operates.

Colin Beattie: In your opinion, this is not a long-lasting issue that HES has had for years.

I am trying to understand the culture of HES, how it has developed and where it went wrong.

Katerina Brown: There is a structure at HES that is quite siloed. There are very specialist departments, and they work quite individually in some cases. In some cases that is appropriate, and in other cases there is quite open dialogue, so it is quite hard to generalise about a culture of non-compliance. That would go too far, but I acknowledge and recognise instances in the Auditor General's report where there have been cases of non-compliance.

Colin Beattie: I am just trying to get at whether those processes should have been picked up earlier by internal audit or perhaps by the board. If we are talking about the board, perhaps Sir Mark may have a view on that.

Sir Mark Jones: I can only look back on the history of HES from an outsider's perspective. Since I arrived there, I have been trying to focus on setting right some of the things that are most obviously wrong. First of all, as you say, there was the absence of an accountable officer. It was obviously necessary to deal with that and bring back Katerina Brown as chief executive officer and back into function as accountable officer. Since then, we have gone on to tackle some of the evident problems that have arisen—one of those was a lack of leadership of the senior executive team, and the appointment of Stephen Uphill has been very helpful in overcoming that lack, which was very much felt.

It was clear from the concerns raised in the section 22 report that we needed an external person to come into HES and carry out an absolutely thorough review of the organisation of HES and of its culture. I asked the Scottish Government to nominate someone to do that, and it nominated David Martin. He started on 19 January, and it is hoped that his report will be delivered in May. I hope that that report will tackle the questions of culture and the questions of organisation, both of which are badly in need of being properly looked at, understood and then reformed.

Has there been a problem with HES since its inception? I think that there may have been. HES

is the product of an amalgamation between the Royal Commission on the Ancient and Historical Monuments of Scotland and Historic Scotland. It is possible that that amalgamation was not carried through in a way that led to a completely coherent organisation. Historic Scotland had been operating as an agency and was therefore not used to having a board of trustees to which the senior staff were responsible. It might be that, over a period, there was a difficulty in the relationship between the board and the senior staff. That is speculation on my part and I say that as an outsider, not as an insider. I have not had the opportunity to go through the archives, as it were, to work out the story from internal documents.

Colin Beattie: Your comments are very helpful. Having experienced such mergers in the past, I can understand the tensions that they sometimes bring. Are you satisfied that that merger is now solidly in place and that there are no hangover issues from it?

Sir Mark Jones: My view is that the merger is undoubtedly in place and complete. With the natural passage of time, people have come into the merged organisation, so those problems are much less acute than they might have been initially. On the other hand, as the section 22 report pointed out, a very important question for HES to resolve is the future of its important archive, which archive derives largely from the Royal Commission on the Ancient and Historical Monuments of Scotland.

Colin Beattie: Thank you.

I will move on to something slightly different—data breaches. The report says that eight data breaches took place, and, from our previous evidence session, I understand that three of those involved a member or members of the board. Can you bring us up to date on whether those breaches have been resolved? Are they dealt with? Are they over?

Katerina Brown: Historic Environment Scotland has some experience of data breaches, but historically not many. The number that arose in the summer of last year was a spike—in proportion to the size of HES, it was a lot. There were more than that, but eight were reported to the Information Commissioner's Office. That is serious; I acknowledge that. That is uncomfortable, and the breaches need to be addressed. Two of the eight cases have been closed, and the remaining six remain open and under investigation.

Cyber risk has been on our risk register for some time, but, at the beginning of 2025, it was selected as an area for internal audit, given some increasing concerns. A paper was produced through that internal audit, which was carried out over late summer. There are two policies that govern data breaches at HES—one that covers the actual breach and one that covers the incident management when a breach has happened, including consideration of whether something should be reported and how it is then handled. Both policies have been reviewed, and lessons have been learned from that and will be actioned. The reports on both policies were produced late last year.

So, to answer your original question, six cases are still open and two were closed.

Colin Beattie: Was there a specific single reason for that spike? Did it derive from a single source, or was it just down to happenstance?

Katerina Brown: For the six cases that are being investigated, it is not possible to answer that question yet. Five relate to HR matters, with the subjects referencing senior leaders. It has been unfortunate that, over the summer, I have been a subject of many of those. Reputationally, that has damaged me personally and professionally, as well as HES. Any data breach that is in the public domain damages the organisation. We need to reflect on that and on how we restore credibility. We discussed that at the most recent board meeting.

There was one incident of unauthorised sharing of personal data, in which data was sent outside the organisation, and there was another incident involving the transfer of sensitive data without having appropriate arrangements in place. There was a combination of factors.

Colin Beattie: In relation to the two breach issues that have been resolved, I assume that there have been no penalties for HES.

Katerina Brown: No.

Colin Beattie: I will move on to one last question, which is about single-source justification. Contracts were offered for items over £1,000, for which there should have been three quotes. Apparently that took place on at least one occasion. Was there more than one occasion? I have here a reference to one occasion on which that happened. Have other contracts been issued on that basis that we have not been sighted on?

12:00

Stephen Uphill (Historic Environment Scotland): I will take that one. There are potentially two issues there.

First, there is the single-source justification itself. That is a known procurement route that allows an organisation to engage with one supplier where there is no alternative. We come across that in our normal operations. We undertake some specialist

activities and it would not be unusual, in particular in some remote and rural areas, for a direct contract with a supplier to be the appropriate route where there are no alternatives that would provide three quotes.

The other thing to which you might be referring concerns the £1,000 and three quotes in relation to e-procurement cards.

Colin Beattie: Surely there should be a policy to deal with the situation that you describe. I can understand that, in a rural environment, there is limited capacity to be able to go out to the market and ask for quotes, but surely there must be something in HES's policy that would cover that point. That would make it not an irregularity but simply a transaction that is processed in accordance with policy.

Stephen Uphill: Indeed—the procurement policy is the overriding policy. It is very clear within HES, and in legislation, how procurement in the public body works: at which point we use three quotes, at which point we go out to tender, and so on. The policy has been reviewed by our internal audit process as part of the reflections on the section 22 report and the audit report, but we have also looked at the SSJ policy specifically, and at not only how those justifications are signed off in the first place but how they are tracked afterwards.

Colin Beattie: So, at the time that the breach took place, it was really a breach resulting from the lack of a policy being in place to cover that.

Stephen Uphill: No—the policy was in place. If you are referring to the use of e-procurement cards, it is on the record that, in the case of the kitchen, for example, the procurement policy was breached in that instance, where three quotes should have been obtained. There was a separate instance where an e-procurement card was used to pay for goods, which involved a separate policy, but the procurement policy should have overridden that.

Colin Beattie: Okay. I think that colleagues will pick up on the cards.

The Convener: Could I act as a little bridge between Mr Beattie and Mr Simpson? You were asked about how long this had been going on. Ms Brown, you arrived in September 2024, so you cannot really speak for before that date.

We know that these 400 electronic purchasing cards presumably existed before that date. I am looking to the Scottish Government here, really. We know that the complementary tickets policy presumably predated September 2024. Did you not flag up any concerns about the existing procedures that were in place? That question is for either Mr Hogg or Ms Riach. Do you think that they would have pre-dated Ms Brown's arrival?

Kenneth Hogg: My understanding is that the number of electronic purchasing cards in circulation in the organisation pre-dated Ms Brown's arrival. I do not know whether the Scottish Government was aware of that at the time. It was not necessarily the wrong thing to have happened, but the Auditor General has called out the lack of scrutiny around the use of those cards. He comments, for example, on the level of sampling of transactions to be reviewed.

To the best of my knowledge, the first that we were aware of there being lax procedures around the use of those cards came with Ms Brown's arrival in the role. She began calling out issues that were less visible, which were in the category of poor practice.

I will briefly return to Mr Beattie's question, which was about procurement. There are two separate issues in that regard. One is the issue of the use of the electronic procurement cards, which we have just been discussing. The other issue, which the Auditor General referred to in his report, concerns a specific instance of multiple single-source justification contracts being given to the same individual. That may or may not have been done using the cards, but the point is that it involved several tens of thousands of pounds, and was a clear breach of the existing HES policy on procurement.

At that time, there was a clear procurement policy in HES that should have prevented multiple contracts being given to a single provider of services without competition, and the Auditor General called out an instance where that did not happen. I think that I am right in saying that three such contracts were given to that one individual and that, together, they added up to approximately £60,000 or £70,000. That is a serious matter, and I know that HES appointed the head of internal audit to carry out an investigation into that circumstance. We saw a copy of the draft report about that, and we asked further questions about the action that was being taken specifically in relation to that example.

I wanted to be clear about that, as I think that the Auditor General might say that the electronic procurement cards are an issue but that there is also a specific instance of the single-source justification not being applied appropriately.

The Convener: Thanks for clarifying that. Mr Simpson will ask some questions about that issue but, before he does so, I must just say that I think that 400 e-purchasing cards is rather a large number for a permanent workforce of 1,600 people—Ms Duthie told us in evidence that she thought that it was a high number. I recognise that those 400 people may all be honest and be complying with all the rules and requirements and

so on, but it seems like a huge number of people to have electronic purchasing cards on behalf of the organisation. Do you agree?

Kenneth Hogg: Yes, and I think that that was also Ms Brown's view when she took up her post.

The Convener: Ms Brown was right on that, certainly.

I invite Mr Simpson to come in.

Graham Simpson: There is a lot to pick up on. Has the number of cards reduced from 400?

Stephen Uphill: The number of cards is still in excess of 400, but 35 have been removed recently, because they are not being used.

Graham Simpson: So, there are still more than 400, even though everyone seems to accept that that is too high a number.

Stephen Uphill: That is correct.

Graham Simpson: Or maybe you do not accept that?

Sir Mark Jones: I will just give you a little bit of context. The fact is that Historic Environment Scotland is unusual in public bodies in being present right the way across the country, often in quite remote areas, and you would expect a higher use of electronic procurement cards in an organisation with that kind of function than you would if the organisation operated only in a city. I am not saying that 400 is the right number, and I am not saying that it is not too much, but I think that we need to recognise that there are some special things about HES, and one of them is that it is very often active in places where it is important that people are able to buy a meal, for example, or that they are able to buy whatever it is that they need using an electronic procurement card.

Graham Simpson: I am not disputing that there should be some electronic procurement cards, but Mr Hogg reckons—and I think that he is right—that 400 is too many. If there is an acceptance that 400 is too many, are you going to tackle that and reduce the number?

Sir Mark Jones: As my colleague has just said, we have begun to tackle that and have already reduced the number.

Graham Simpson: There are still more than 400, so you have not tackled it.

Stephen Uphill: The work to examine the use of the cards is on-going.

Katerina Brown: An internal audit report that is now complete makes a number of recommendations for electronic procurement cards. One recommendation is to review the needs of individuals, and there are many other helpful recommendations, such as examining the limits that different people have and introducing approval for increasing limits.

We have also learned that we have slightly unhelpful overlapping policies that have created some confusion for staff, which we are looking to fix. For example, we have a separate policy for travel and reimbursed expenses and for procurement. There is a question about when someone would use a card. I would say that all these things are opportunities to provide clarity for staff so that the policies are used properly.

Graham Simpson: I am going to ask about travel, but I want first to pick up on something else that Mr Hogg said in relation to cards. I do not know, and I do not think that the committee knew, that a single contractor had been awarded jobs amounting to £60,000 to £70,000, which was in breach of policy. Those jobs were not put out to tender. There is a reference to that in the Auditor General's report, but it does not say that only one contractor was awarded the work. That was news to me. What field was the contractor in and what were they contracted to do?

Stephen Uphill: I can answer that for you. It is not about cards; it is about the inappropriate use of the SSJs. My understanding is that that contractor was effectively a temporary resource and a temporary employee, which is an inappropriate use of an SSJ for procurement. The procurement process should have gone through preferred suppliers, et cetera, in order to obtain resources if they were required.

Graham Simpson: What was the temporary employee doing?

Stephen Uphill: I believe that they were in our marketing and events directorate. I am unsure of the exact role.

Graham Simpson: So, they were essentially hired to do marketing, whereas you could have put the work out to the market and potentially found someone else.

Stephen Uphill: The appropriate procurement route would have been through an approved agency supplier from the framework agreement. The resource should have been recruited through that.

Graham Simpson: Ms Brown, I want to go back to the start. The convener was exploring your work when you first started and the things that you uncovered, including purchasing cards, travel expenses, data protection failures and a big alcohol bill from a leaving do. What was the board's response to your finding out about those things?

Katerina Brown: At a high level, I reported the general findings in November in three buckets,

which, at the time, were culture, operations and governance. That was about eight weeks into my post. At that stage, they were early observations on general things. The feedback at the time was some recognition that those problems were not new. There was some focus on what would be done. I was serious about it and, in some cases, the board papers are quite detailed about those findings. That triggered a series of internal audits. There was additional scrutiny at the audit and risk assurance committee, which has a special focus on controls and risks and is a subset of the board. The committee was keen that we progress reviews of those areas, which we did. That was in the first three months of my appointment.

Graham Simpson: At any point, did you start to feel that people were unhappy with what you were finding out?

Katerina Brown: Yes.

Graham Simpson: How did that transpire?

Katerina Brown: There were various levels of frustration. Some board members were keen that we move on and resolve the issues quite quickly. Others saw the issues as operational and not a matter for the board, while others felt that we should move on and focus on bigger or different things.

Graham Simpson: Did you come under pressure to stop delving?

12:15

Katerina Brown: I carried on doing what I started doing. I shared findings with the chair in one-to-one meetings as well as through the sponsor team and had meetings with the director and various levels of people in the sponsor team to understand whether those were new issues and to sort of sense-check them. I spoke to more and more staff across the organisation to make sure that they were not one-offs and to understand whether there was a pattern or theme, so that I could be as fully informed as possible. I also talked with the chair and the board at regular intervals.

Graham Simpson: Did anyone ask you to stop?

Katerina Brown: Nobody asked me to stop.

Graham Simpson: Was there any kind of pressure put on you to stop?

Katerina Brown: There were discussions around board agendas, particularly in February. By that time, I had had four or five months in post and it was clear that there were some things that I felt needed to go to the board for approval because they met the criteria to be taken to board. Typically, board meetings were quite short and fairly light, so I was proposing an agenda that would be longer than normal. That was a challenging conversation because it was not within the norm, and that was evidenced by my team. I had a chief exec's office team that recognised that what we were proposing was something that was not quite within the norm.

Graham Simpson: Okay—you wanted a longer agenda. What items did you want on that agenda that other people did not?

Katerina Brown: One item that I remember quite clearly was governance training, in the form of a general session that would be facilitated, internally or externally, to help clarify roles. I made an observation—this picks up on a point that Mark Jones made—about culture and the need to understand the role of the board, including the role of trustees, directors and the leadership team, and indeed the chief executive and accountable officer. I was keen to provide clarity to everybody on what the respective responsibilities are, and a governance session was one thing that I was keen to do. I understand that plans to have that were cancelled a number of times, but that it has now been delivered under a new chair.

Graham Simpson: In May last year, you went to your doctor. Was that work related?

The Convener: Graham, I think that we have established that it was. We should move on to your substantive—

Graham Simpson: The answer is yes, then.

The Convener: I think that that is what we established earlier on. I think that we need to move on to the travel issues and so on, not least because of time.

Graham Simpson: I thought that it was quite important to establish that, but I will move on. It was work related. Are you okay now, Ms Brown?

Katerina Brown: Yes. I sought—it was my intention to return to work in July, and I am back at work now.

Graham Simpson: Yes—as you have said earlier, you wanted to come back and you were prevented from coming back. You are back now.

I want to look at some of the things that you uncovered. One was the issuing of complementary tickets to events, which were dished out, I think, to HES staff. Other people would hire venues for events, and HES staff would get those tickets. Do you know what the scale of that was and what kind of events they were?

Stephen Uphill: Obviously, the commercial operations of HES involve utilisation of the assets in terms of events at the properties that are in our care. The tickets referred to in the audit report and the section 22 report relate, I think, to events at Edinburgh castle, specifically the tattoo and

associated concerts during that period on the castle esplanade. As part of our contractual arrangements with the Royal Edinburgh Military Tattoo, the organisation receives 10 tickets for each night of the tattoo and either 10 or 20 tickets—I might need to be corrected on that—for each of the concerts, and those tickets are used by the organisation to host partners et cetera as part of normal events hospitality.

It is worth stating that, in the normal world of a public body, such events would be unusual or would never happen, but HES is in a very special position in that it has a very commercial operation, too, and those things are part of commercial business. The audit report, though, highlights some potential issues with how those tickets have been used and whether the guests invited were appropriate, and I am personally sponsoring an internal audit review of how those tickets are acquired and distributed among the organisation. That review commenced as of this week.

Graham Simpson: Okay. In the interests of time, I will move on.

When I asked about foreign travel in a previous meeting, we were given a few interesting examples. In one example, somebody was sent to teach traditional skills in America, and there were some digital round tables, which were also in America. However, the one that piqued my interest was the study of mortar in Norway. What was the justification for that?

Katerina Brown: I can give you some context to travel spend, because it might provide some helpful background.

HES spends around £140 million a year, and it spent £37,000 on travel this year and around £40,000 the year before. Overall, then, we are talking about a very small amount of public money. If you look at the very broad range of HES activities from archaeology, research and heritage skills all the way to more commercial fundraising and philanthropy activities, you will see why many people will make a case to travel—and, I should say, many more than actually do. We have a policy in place that anything over £1,000 comes to the chief exec for approval, and I have reviewed many cases in my time there.

It is a very small amount of spend, and I think that we should also consider that some of those trips are supported through grants—grant funding pays for them—and there are cases, too, of trips being reimbursed by the host in the countries in question. On the more commercial side of things, the trips do generate income. We have digital assets that people can acquire; we have made trips to promote them, and the income that they have generated has been considerably in excess of the cost of the trip. That is published in our accounts.

Graham Simpson: I presume that somebody going to study mortar in Norway is not going to generate any money.

Sir Mark Jones: I do not know whether that generated money, but what I do know is that Historic Environment Scotland has an international reputation for the quality of its work on historic buildings, and lime mortar is obviously one of the essential materials used for the restoration and refurbishment of such buildings.

I happened to look at that particular example. I know that it sounds improbable, but apparently the Norwegians have a particularly good way of using lime mortar, so the person went in order to find out how they did it.

Graham Simpson: There you go. It is good to know that the trip helped.

Sir Mark Jones: Yes.

Graham Simpson: So, that is your answer.

Sir Mark Jones: It was a trip not to earn money, but to expand expertise.

Graham Simpson: Okay. That is fine.

Finally, we come to the leaving do—the infamous leaving do—for a board member. Eleven people went. It was at a restaurant attached to the University of Edinburgh and the drinks bill was £500, so that was about £45 a head—it must have been a good night. All the people attending were asked to repay that money. It was inappropriate, but there have been other instances where people have racked up booze bills on the public purse. Has all that stopped now?

Katerina Brown: I can talk generically rather than about those specific cases. I am not aware of any further such incidents.

Graham Simpson: Have you stopped it? Have you issued an edict to staff that they are not to do it again and that, if they go out, they have to buy their own drinks?

Stephen Uphill: We agree that the instance you referred to was inappropriate and it has been dealt with. I refer to my previous comment about HES's unique structure. In a public body, expenses and spending money on alcohol is not acceptable. Within the events and hospitality business, however, it would be reasonable to have a small amount of alcohol in a hospitality environment. We need to be careful that we do not put a hair shirt over the opportunity to generate income in support of our heritage assets.

Graham Simpson: Thank you. I have taken up enough time.

The Convener: Joe FitzPatrick has been waiting patiently to ask some final questions.

Joe FitzPatrick: Thank you, convener. I want to touch on an area that we did not manage to cover at the previous meeting. The archive house project was started in 2021 and a decision was taken in June 2024 to end it. It would be good to hear how much has already been spent and how much more will need to be spent before the lease break in 2029.

Katerina Brown: The lease was signed in 2019 with a break at 10 years in 2029. When the lease was signed, the project had not commenced. It was a building that was identified for archives. The business case for the project was then developed and that was approved by the board in 2021. Development work then took place over two to three years and the costs for a variety of suppliers and development work amounted to about £2 million. There was some further work still to be done, so the cost went to around £2.9 million.

At that point, the estimate for the project costs, which started at around £9 million, were looking more like £20 million to £25 million, so it more than doubled. There was no funding in place for that estimated cost, so in July 2024, the board decided to abort the project to avoid any further costs. I do not have the exact number, but there is a still rental lease going on. At the same time, we are considering what the building could be used for in the remaining period of its lease.

Joe FitzPatrick: So, work is still being done on what the building could be used for going forward. You have made a compelling case that a sum that was significantly more than expected would have had to be spent to bring the project to fruition. What was the governance and transparency around making that decision?

One of the things that we are concerned about is what happens with these significant decisions. However much money was saved, you are telling us that circa £3 million has been spent and it is not recoverable. There is a need for transparency around that, so I would be grateful for any thoughts on that.

Katerina Brown: For a project of that size, scale and nature, I would expect a board to see a full business case both for development and for aborting and pausing. I know that that was not the case in the summer of 2024. However, we commissioned a lessons-learned internal audit review. Its report has just been published and will be presented and discussed at the audit and risk assurance committee later this month. It contains many recommendations relating to project management, governance, reporting and discussing options, which were missing as part of that project. That will come later this month, and we are happy to share that report.

12:30

Joe FitzPatrick: My next question is for Kenneth Hogg or Shona Riach. Was the Scottish Government aware of the decision making around that issue and of the business case?

Kenneth Hogg: To highlight the point that was made by the Auditor General, in addition to the issue of whether the decision to go ahead with the cancellation was correct, it is the governance of that decision that was the key issue. In June 2024, the executive leadership team—the executive leaders, not the board—decided to cancel the archive house project, and the section 22 report says that

"the board was not provided with a paper to enable them to scrutinise the proposal".

As I say, the key issue is as much to do with the governance around the decision-making process as it is to do with the value-for-money case for proceeding. However, that predates my involvement, so Shona Riach might be able to add something.

Shona Riach: My recollection is that the work on the archive house had been going on for a number of years and the sponsorship team were certainly involved in that. However, my understanding is that we were updated on the decision after it was taken, rather than before the event.

Joe FitzPatrick: What action did the Scottish Government take? Were you aware that that big decision had been taken by the executive team without the agreement of the board?

Shona Riach: My recollection is that, as soon as we were aware of the decision, we raised concerns about it on very much the grounds that you have set out, regarding the amount of money that had already been sunk into the project and the fact that a solution needed to be found for the archive issue, which meant that that was something that we would need to come back to. It was, therefore, something that we discussed.

Joe FitzPatrick: It seems strange that a decision of such significance was able to be made without the approval of the board. Can the executive team still operate without the approval of the board at that level?

Katerina Brown: Just to be clear, the board approved the decision to abort the project—it was the board that made that decision. However, I accept the Auditor General's comments that the decision was taken without a sufficient business case review at that point.

Joe FitzPatrick: I appreciate that it was before your time, Ms Riach—and before yours, Sir Mark—but it seems that the board was prepared to make that decision without a business case. Is the board entirely new, or are some of the board members from that time still there? What is the ratio of former members to new members?

Sir Mark Jones: Most of the members post-date that decision, but a couple were on the board at that time.

Joe FitzPatrick: So, it is mostly new members.

Sir Mark Jones: New or new-ish.

Joe FitzPatrick: New since 2024, is what I mean.

Sir Mark Jones: Yes, the majority of them are new since 2024.

Katerina Brown: Maybe two would have been there in the period from 2019 to 2022 but, since 2024, there have been two new board members.

Shona Riach: A key point is that, since the appointment of Sir Mark, the Scottish Government has worked with him to appoint two additional members to the board specifically to bring in skills and experience that he and we agreed were lacking on the board.

Joe FitzPatrick: That is appreciated. However, from my perspective, and perhaps that of my colleagues, a large number of board members were not exercising their roles in the way that we would have hoped. Has there been additional training? Since you have come in and appointed two new members, have you made sure that the rest of the members of the board understand their responsibilities?

Sir Mark Jones: Yes, I have. However, it was quite unacceptable that the board was put in a position in which it felt that it had to make a decision when there was an inadequate basis for doing so. That is what happened. The board made the decision, but they did not have the appropriate papers or the appropriate length of time before the board meeting to take a proper, fully thought-out and rational decision. The decision to abort the project was absolutely right, but the way in which it was taken was not.

Joe FitzPatrick: It is about getting that confidence, and one thing that is helpful for that is transparency. Are the board papers now being published? Are the minutes being published?

Sir Mark Jones: Yes, the minutes are placed on our website. There has been a bit of a backlog, but all of them are going up.

Joe FitzPatrick: That is appreciated. It is helpful, and it will give more confidence to the organisation going forward and help it to be successful, which is what we all want. Thanks very much.

The Convener: You mentioned earlier that an organisational and cultural review has been commissioned and scoped. We look forward to seeing the outcome of that. Whether it will be the members here who see that outcome remains to be seen, but it would be useful for us to be kept up to date on it.

We are also aware that the Constitution, Europe, External Affairs and Culture Committee of the Parliament has been taking evidence from you and looking at what has happened with the findings of the Audit Scotland report, so we will liaise with that committee to see how we can assist it in its work.

For the time being, I thank all the witnesses for coming along this morning and being open to giving evidence to us. I thank Shona Riach and Kenneth Hogg from the Scottish Government. I thank Mark Jones, Stephen Uphill, and particularly Katerina Brown, from Historic Environment Scotland, for being open and willing to answer our questions. That is much appreciated.

I move the committee into private session.

12:37

Meeting continued in private until 13:02.

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