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DRAFT

Public Audit Committee

Comataidh an Sgrùdaidh Phoblaich

Thursday 29 October 2026

Session 7

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PUBLIC AUDIT COMMITTEE
8th Meeting 2026, Session 7

CONVENER

*Neil Bibby (West Scotland) (Lab)

DEPUTY CONVENER

*Dawn Black (Angus North and Mearns) (SNP)

COMMITTEE MEMBERS

*Miles Briggs (Edinburgh and Lothians East) (Con)
*Alan Brown (Kilmarnock and Irvine Valley) (SNP)
*David Kirkwood (South Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)
Jacqui Brasted (Scottish Funding Council)
Cornilius Chikwama (Audit Scotland)
Paul Devoy (Scottish Funding Council)
Shirley Laing (Scottish Government)
Neil Rennick (Scottish Government)
James Russell (Skills Development Scotland)
Dharshi Santhakumaran (Audit Scotland)
Damien Yeates (Skills Development Scotland)

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit Committee

Thursday 29 October 2026

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Neil Bibby): Good morning. I welcome everyone to the eighth meeting in session 7 of the Public Audit Committee. Under agenda item 1, do members agree to take items 4, 5, 6 and 7 in private?

Members *indicated agreement*.

"Post-school education and skills reform"

09:30

The Convener: We move to agenda item 2, and I welcome our witnesses. From the Scottish Government, we are joined by Neil Rennick, director general education and justice, and Shirley Laing, director for lifelong learning and skills. From the Scottish Funding Council, we are joined by Paul Devoy, interim chief executive officer, and Jacqui Brasted, director of strategic transformation and skills. From Skills Development Scotland, we are joined by Damien Yeates, chief executive officer, and James Russell, senior director of transformation. I invite Neil Rennick to make a short opening statement.

Neil Rennick (Scottish Government): I am grateful for the opportunity, along with colleagues, to give evidence on the audit of the post-school education and skills reform programme. I welcome Audit Scotland's scrutiny of the programme, and I accept the findings and recommendations, which reflect a point in time of an ongoing programme of reform.

Paragraph 17 of the report identifies five projects that comprise the reform programme. Progress has been made on each of those since the initial evidence was gathered by Audit Scotland in February and March and since the publication of the report in June. That includes the completion of the audit of post-school qualifications in May. In August, student support functions were successfully transferred from the Scottish Funding Council to the Student Awards Agency Scotland for the start of the new academic year. Work as part of the simplification project to bring together responsibility for funding for post-school provision under the SFC by April next year is on track. Good progress is also being made in response to the specific recommendations made by Audit Scotland, building on work already in progress with the refresh of the programme from January this year, following a gate review 0. That includes the development of a comprehensive programme delivery plan and ongoing work on an evaluation framework.

I want to express my appreciation of the work undertaken by Skills Development Scotland, the Scottish Funding Council, the Student Awards Agency Scotland, Scottish Government and others for the continuing progress of the reform programme, with the ultimate aim of simplifying and strengthening the post-school funding and skills landscape, supporting people at all stages to develop the skills, knowledge and attributes they

need to fulfil their potential and contribute to Scotland's society and economy.

The Convener: Thank you for your opening statement, Mr Rennick. It contained a lot of policy language. One of the issues discussed in the report is that the Scottish Government has failed to effectively communicate its reforms to stakeholders. This morning, there is an opportunity for us to explore issues in relation to the reforms and for the Government and its partners to effectively communicate the reforms. You said that you accept all eight of the report's recommendations and that progress is being made on meeting those. There are six recommendations for the Scottish Government and two additional recommendations for the Government to work on with partners at Skills Development Scotland and the Scottish Funding Council. The report was published in June and the recommendations were to be completed within six months, so will all the recommendations be actioned by the end of the year?

Neil Rennick: Progress is being made on each of the recommendations, with the aim of meeting them within the timescales that Audit Scotland identified. Obviously, work will continue long beyond that, because this is a long-term programme. For example, the simplification programme and bringing together responsibility for post-school funding, which I mentioned, will happen from next April. Therefore, the answer is yes on the work to be completed by the end of the year, but it is part of ongoing work beyond that.

The Convener: You mentioned that progress is being made on an overarching delivery plan. In June, the Auditor General was unequivocal when he said that the post-school education reform programme completely lacked a clear delivery plan. What specific progress have you made since June to finalise the delivery plan?

Neil Rennick: It is important to say that it was always identified that the project would have a number of phases and stages over time. It started with the work on simplification, which was intended to open up further opportunities to deliver reforms.

Shirley Laing can provide an update on the plan.

Shirley Laing (Scottish Government): I am happy to do that—please forgive my croak.

The recommendation has been completed. We have developed a comprehensive delivery plan for the Scottish Government-led parts of the programme, alongside which we have refreshed our RAID—risks, assumptions, issues and dependencies—log for the programme.

The Convener: I have a general question about how the reforms are being communicated. What is the primary objective of the reforms? Are they about saving public money or improving learner outcomes?

Neil Rennick: The "Purpose and Principles for Post-School Education, Research and Skills" set out the high-level aims of the programme, which included simplifying the landscape, given the challenges that existed with identifying sources of funding. That has been part of the work that we have been doing, although it is not an end in itself. The intention is to allow people to make better choices on the opportunities to engage in learning, training and acquiring skills, and to support wider economic and social benefits from the reforms, including through the provision of funding for teaching and research.

The Convener: Obviously, there is a high-level vision map, but the Auditor General's report says that there is a lack of basic baseline metrics. What outcomes are you trying to achieve for learners? What specific, concrete benefits do you have in mind?

Neil Rennick: Obviously, we are operating in an environment that is constantly changing. The needs of the economy, the demands of learners and the context, both in the United Kingdom and internationally, are changing all the time, and we are having to adapt to that. Following the passing of the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026, we have been progressing work, along with our analysts, on measures that can reflect the progress that we are making with the programme.

I will bring in Shirley Laing to talk about that.

Shirley Laing: As the committee will be aware, we developed a vision, benefits, outcomes and outputs document as a first iteration some time ago. Now that a refreshed programme scope and overall delivery plan are in place, we can look back and identify appropriate measures for success.

We have developed a theory of change or a logic model for what that will look like. There is a cross-organisational group that is made up of members from across the organisations. With our analytical colleagues, we are looking to take forward that work with a view to publishing an evaluation framework in the spring. The measures that will be required to track progress will be gathered from a number of sources, which will include monitoring and management information from individual projects; data, graphics and statistics that we already have; and primary research with stakeholder groups that is designed to fill the evidence gap. We want to establish a baseline for where things are at as of now, in advance of the transfer of the national training programmes from SDS to the SFC next April.

The Convener: Did you say that you will implement the evaluation and monitoring framework by the spring?

Shirley Laing: We will publish it in the spring. It is due to be put before the next meeting of the cross-organisation post-school education and skills reform board on 2 December. At its most recent meeting in September, the cross-organisational board saw the logic model, but we want to bring forward the next piece of work, which is the key evaluation framework.

The Convener: We will explore those issues further.

At this point, I will bring in Mr Kirkwood.

David Kirkwood (South Scotland) (Reform): I will concentrate on the governance issues rather than the detail. In the "Key messages" section on page 3, paragraph 2 of the report talks about programme planning and paragraph 3 talks about risk management. Programme planning pops up every time somebody appears before us. It would appear that public sector projects cannot really manage programmes very effectively—that is a frequent criticism. It is interesting that Shirley Laing mentioned the RAID log, because that issue came up when you were last here, Mr Rennick. One thing that concerned me a bit at that time was that you said that a RAID log was not necessary for that particular programme because the risks were all captured in project-level RAID logs. That is not how a programme RAID log works; everything must be escalated to the highest level.

Shirley, is the RAID log that you are using now a programme-level log, or do you use a set of project-level logs?

Shirley Laing: Each project, as you rightly say, will manage risks. However, our internal programme board—that is, the Scottish Government programme board; each organisation will have its own internal mechanisms—has its own RAID log, which has been refreshed.

As part of the new structures that we have put in place following the gate review 0, as well as bringing in the internal programme board, we also have the cross-organisation post-school education and skills reform board. The latter board operates at the strategic level. For the Scottish Government, we have our IPB at the tactical level and operational boards at the project level. Different organisations will have their own variations.

At the previous meeting of the cross-organisation board, we started to discuss the risks to the system. What do we need to look at across the totality of the system? What does that mean for us in the cross-organisational space, and what does it mean for the individual organisations? Dialogue on that continues; that work is still developing. However, we came up with a list of overarching risks or areas that need to be considered, and we are working through the escalations. By way of example, at the previous IPB, just the other week, a risk was flagged to us. It was not escalated for action, but one of the projects wanted us to be alert and alive to an issue that was pretty hot on its risk register, in case it needed to be brought forward to us for action.

We have really tightened and refreshed all that, and we now have much greater clarity around the escalation processes.

David Kirkwood: You now have a programme-level RAID log. Are the project-level risks visible to the programme board?

Shirley Laing: They are, where they need to be escalated. Where they can be managed at project level, they are.

David Kirkwood: Are you using traditional red, amber and green ratings?

Shirley Laing: Yes, we are.

David Kirkwood: Okay. That is good.

Paragraph 3 on page 3 says that

"key public bodies such as the Scottish Funding Council and Skills Development Scotland were not part of the Post-School Education and Skills Reform Programme Board."

That seems to be a serious omission. Why were they not in the programme board from the start?

Shirley Laing: I can come in on that one as well. There have been a number of iterations of the programme board. Initially, policy colleagues in the lifelong learning and skills directorate were discussing the pieces of work that became the projects in their very early stages. We then sought to bring in colleagues from across the Scottish Government where we felt there was relevance, including from the economy directorates, to provide something akin to a non-executive director role on the board.

When we reached the point at which the Tertiary Education and Training (Funding and Governance) (Scotland) Bill was going to go through Parliament and we were on a firmer footing regarding exactly where things were headed, that was the appropriate juncture at which to bring in colleagues. We first brought in colleagues from other agencies in September last year to take that forward. Then, as part of the gate review 0 work, we felt that we needed to further clarify the roles, responsibilities and what was appropriate. That was when we established the cross-organisational board. We changed the titles again and took that forward later. The board has continued to include the chairs and chief executives of the relevant organisations.

That was not a deliberate exclusion of partners; rather, the issue was identifying the appropriate time to bring them into the conversation in a helpful way.

Neil Rennick: It is important to say that engagement with chief executives of the organisations and with the individual organisations was happening at the same time, even if it was not through that particular board.

David Kirkwood: There was informal communication without the matter being formally communicated.

Shirley Laing: Yes.

David Kirkwood: Okay, that is good.

Paragraph 4 states:

"The full financial impact of delivering changes required by the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026 is still unknown, with staff and digital system transfer costs still to be confirmed."

Those seem to be fairly significant financial risks to the project. Do you have any handle on the magnitude of those problems?

09:45

Neil Rennick: At this stage, part of the main costs relates to the simplification programme and the transfer of staff. Paul Devoy can say more about that.

Paul Devoy (Scottish Funding Council): I have looked at those numbers very closely since taking up my post. The additional costs—based on the current costs to SDS and what it would cost to transfer staff—are around £15.6 million. That is predominantly made up of pension transfers.

A piece of work has been done to understand the most appropriate way of ensuring that the staff who are—under the Transfer of Undertakings (Protection of Employment) Regulations—TUPEing from SDS into the Funding Council have their pension rights protected. That is an estimate at the moment.

When the actuarial calculations are done in April on the value of the SDS pension scheme versus the civil service pension scheme, that will be reconciled, and we think that that number will come down, but I cannot give you a precise number at the moment, because that calculation has not been done.

David Kirkwood: The TUPE cost will not be greater than £16 million—is that what you are saying?

Paul Devoy: Yes.

David Kirkwood: That is fine. The other big issue is that of the digital system transfer. I have been an information technology professional for many years. I have been involved in Government projects, and they are horrific in general. Have you any handle on how much that transfer is likely to cost?

In conjunction with the transfer and the merger of SDS and SFC, you will also have a transformation programme coming in to reflect your new funding model. Will those elements be done in two tranches, or will you try to do everything at once?

Paul Devoy: The objective is to do an as-is transfer. We have been working extremely closely with our colleagues at SDS on the safest way of making sure that, from day 1, there is no detriment to the service that is delivered to apprentices, training providers or employers. That has been our number 1 priority all the way through.

We will make sure that the system is 100 per cent working as-is, but you are right that, once it comes over, we will need to consider what the digital transformation might look like over the coming years. We have an indicative number of around £5 million for the project, but that has to be fully costed. We will do that over the coming period.

David Kirkwood: I have to say that that sounds very low, based on my experience of Government IT projects.

At the bottom of page 7, the report says that the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026 includes

"a requirement for a National Funding Strategy with the ability for ministers to set funding priorities".

That is a big opportunity for SFC to change the entire landscape of funding for education. How hard have you grasped that opportunity so far?

Paul Devoy: You are right. We see four main benefits of the 2026 act. The first is that there will be an ability to make better choices about where the money can go. When you can see learner demand, employer need and national priorities together, you are more likely to put investment where it creates the greatest value.

The second is that there will be fewer artificial boundaries. Apprenticeships, colleges and universities can collaborate as an ecosystem. Bringing funding together makes it easier to create pathways between them and from tertiary education to work.

Thirdly, less effort will be spent servicing the system itself. Organisations having different rules, reporting arrangements and processes consumes time and money without necessarily creating value. Greater consistency means that more

attention can go on teaching, learning, skills and outcomes.

Fourthly, and probably most importantly, there will be a system that can adapt rather than merely administer. Scotland already has extraordinary assets in its people, colleges, universities, research and innovation. The prize is connecting them, so that investment can respond more quickly as the economy changes and turn those strengths into greater economic and societal value.

David Kirkwood: I have talked to several tertiary education institutions over the past few months, and I have constantly heard about inflexibility in funding, particularly in relation to graduate apprenticeships, but in general, there are artificial walls between colleges and universities and between those and external learning providers such as the Workers Educational Association.

It is difficult to see education and lifelong learning as a continuum. It is a series of steps but each step is one that someone might not take—rather than building up education over time, they may decide not to take the next step.

I have heard a lot about microcredentials, which is where qualifications can be built up out of possibly hundreds of small qualifications. Is that part of your study?

Paul Devoy: We are lucky that we have an expert on that sitting to my left, so I will ask Jacqui Brasted to answer that question.

Jacqui Brasted (Scottish Funding Council): Microcredentials have huge potential, in terms of both using funding more efficiently and supporting people who are furthest from education and employment with small steps back towards that, where doing a full course might be quite intimidating.

We are doing a number of things on that at the moment. We are developing a microcredentials framework to help to ensure that the value of those credentials and the number of credits are recognised and that there is a standard on that. As part of our public service reform initiatives, we are funding a number of projects on modular learning and microcredentials in institutions in a variety of sectors, and we are trying to identify ways in which we can overcome some of the barriers that we know exist. We are looking at practical ways to do that. Those projects run until the end of March, after which we will bring together the results to produce an overarching report, to put the learning on that out into the world.

We have been talking to institutions in other countries about their approach. I sit on an Organisation for Economic Co-operation and Development group, and that is one of the issues that comes up a lot. Many people are grappling with the same problems, so we are sharing information and understanding how others are doing things. We are trying to do this as efficiently as we can. I agree that there is great potential, and we will explore that and try to maximise it.

David Kirkwood: That is encouraging, and it is good to hear.

Exhibit 2, which is on page 12, is a high-level exhibit describing the phases of the project. I spent many years as a test manager in software and, when I got stuff like that as a project plan, I would send it back straight away. There is almost nothing there that is quantifiable or testable. How will you know when you achieve any of the aims? The exhibit refers to "Changes to structures". Those are easy to make, but how do you know whether they are the right ones? It also refers to

"Implementation and resourcing of new processes",

and to things being better, simpler and improved. None of that is quantitative; it is all qualitative. How will you know when you have achieved what you have set out to achieve?

Neil Rennick: The work that Shirley Laing mentioned on the evaluation framework is looking at that. It also links with the work on skills planning. If we are better able to match up the skills needs of the economy and society with what the post-school education system delivers, that will give us confidence that the changes are having the impacts that Paul Devoy mentioned.

Part of the work that we are doing is making sure that we can monitor whether that is having an impact. Obviously, we start from a strong place in terms of levels of tertiary education in Scotland, which are high by UK and international standards, but we need to ensure that that matches up with our skills needs in the economy and in the public service and wider society.

David Kirkwood: When is that strategy likely to be published?

Shirley Laing: For the logic model and the evaluation approach, that will be in the spring. As I said, the logic model went to the cross-organisational board in September, and the board is due to meet again on 2 December, when it will see the evaluation approach. We will want collective sign-off, with a view to publishing in the spring.

A lot of cross-organisational work is going on. In that space, representatives from the different organisations form the analytical group, which is driving that work. We will bring the paper to the cross-organisational board.

David Kirkwood: Thank you.

Alan Brown (Kilmarnock and Irvine Valley) (SNP): On page 4 of the report, the opening statement in key message 4 is:

"The reform programme has not been adequately resourced."

Do you agree that it has been underresourced?

Neil Rennick: Obviously, we constantly review the resources that we have available internally in the Government for projects and consider that against competing demands across our policy responsibilities. We have grown the internal resourcing. It initially started with around 18 staff, which has grown to 28 in Shirley Laing's area, which reflects our recognition that we needed to expand the capacity. Obviously, it is not just those 28 people who are working on the issue. We have staff working on skills planning and on other parts of the work with universities and colleges on future sustainability. A wider group of staff is working on those areas.

We are always trying to get the balance right between where the resources are and where those resources are likely to have the biggest impact. In dialogue with Shirley-Anne Somerville, I feel that we are in a place where we have the necessary resources to take forward this stage of reform. That will change as we move into the next phases, in terms of where the best place is for that capacity. That will include looking at the outcomes from the work with universities and colleges and considering how we take that work forward.

Alan Brown: Recommendation 5 is to develop

"a resource plan, mapping programme and project activities".

You have already outlined some of that, but can you confirm whether a resource plan is in place, as well as the programme plans?

Shirley Laing: We are developing a workforce plan based on all that, which we will keep under review.

Alan Brown: Are you developing that only now?

Shirley Laing: It is for the next stage. As part of the refresh that we started in January, we wanted to revisit the programme scope. We wanted to ensure that we had the overall delivery plan in place and then, on the back of that, to ask, "Given where we are now, what workforce plan is required for the next phase of this complex 10-year programme of work, and how do we take that forward?" As Neil Rennick said, it is very much about having the right people with the right skills in the right place at the right time.

Up until this point, we have been pretty creative in how we have done that, so I am hugely grateful to the colleagues who are sat on either side of me, because we have memorandums of understanding with both SDS and the SFC. Some of the team members who are embedded in our skills team have come from SDS, and the SFC has shared expertise as we have worked through parts of the programme. We will continue to look at the programme as we proceed, because this is very much about how we reform the totality of the system. Although the Scottish Government leads the charge on that on behalf of the Scottish ministers, our partners are fundamental to how we achieve that reform, and we want to ensure that we use the skill set across the landscape as we progress that work.

Neil Rennick: We reviewed the staffing position last year, which was when I agreed to the expansion of the team working on the programme.

Alan Brown: Okay, but what matters is whether a proper resource plan is now in place. It is fine to be creative in using existing staff, but a resource plan would identify the key requirements and key skills that are needed to deliver the programme, rather than simply relying on being creative. It tells you what you need to do the job.

Shirley Laing: Absolutely. To be clear, we are drafting a workforce plan, which is based on where we currently are with the Scottish Government parts of the programme, and that will be presented to the internal programme board shortly.

Alan Brown: Okay. How soon is shortly?

Shirley Laing: I think that our next meeting is on 12 November, and I am pretty sure that the plan is on the agenda for that meeting.

Alan Brown: Okay. In the audit report, the overall cost is estimated to be £26 million, but a full resource plan is still not in place. How do we know what the total cost of the project will be? What are the latest estimates?

Shirley Laing: The £26 million figure was based on a forecast that was set out in our outline programme business case in November 2025. Most of those costs related to the simplification work, which included areas such as the pensions piece that Paul Devoy has referred to. As colleagues have said, as the work continues and we gain a better understanding of the requirements, we will revisit those costs and refine them. The £26 million figure reflected the estimated cost at a particular point in time, and we continue to keep it under review as the programme progresses across the range of projects. The projects were at different stages of maturity when the initial costing was undertaken, so we need to keep a close eye on those costs, and that is what the IPB will do as the programme progresses.

Alan Brown: So, you cannot give me a current estimate against that £26 million.

Shirley Laing: I do not have a current estimate to hand, but I am sure that colleagues can let us know where we are, because the bulk of the figure was in the simplification space.

Paul Devoy: I can take you through some of the numbers that we have put together. As I said in my previous answer, £10.8 million of the overall figure was primarily due to pension and staff transfer costs. Another £4.8 million was made up of essential programme management costs, taking the total to £15.6 million. There are additional responsibilities arising from the 2026 act, which we have costed at £2.4 million. The indicative costs that I mentioned earlier for system development and so on are another £5.2 million, which takes the total to £23.1 million. As I said, some of those numbers will shift, because the pension figure relies on actuarial calculations.

Alan Brown: That is right, but the previous estimate for the pension shortfall was £8 million. I cannot quickly add up the different staffing costs, but it seems to me that the figures have already increased compared with what was reported previously.

Paul Devoy: Yes. Just to clarify, the bulk pension transfer is likely to be £4.5 million, but the increased contributions to the civil service pension scheme over four years amount to another £4.8 million, so the £4.5 million is the central number between the £1 million to £8 million figure that was quoted previously.

10:00

Neil Rennick: I know from speaking to finance colleagues that their advice is still that the costs will be broadly in line with what was in the financial memorandum for the legislation when it went through.

Alan Brown: Okay. The pension shortfall payments are different contributions. That was all identified in the original financial memorandum as well, so you are saying that it is broadly in line with that?

Neil Rennick: Yes.

Alan Brown: Okay, that is good.

I will jump across to Skills Development Scotland. Paragraph 78 of the report sets out that Skills Development Scotland

"does not have clarity about its future role".

What was the basis for saying that you did not have clarity on what your future role would be? Where are we with that now that the project has evolved further?

Damien Yeates (Skills Development Scotland): Discussions are ongoing with the Scottish Government on the future role of Skills Development Scotland. Our new chair will meet the new minister this afternoon. We had good discussions in advance of the May election, and we have had further discussions with the Government since then. That decision is not settled yet, but, as I said, discussions are ongoing.

Alan Brown: So, as far as you are concerned, your future is still uncertain. The future direction is still uncertain.

Damien Yeates: Well, it is not confirmed yet, Neil, is it?

Neil Rennick: No. Wider work is being done to look across the whole landscape of public bodies as part of the public service reform process. However, I am greatly appreciative of the work that Skills Development Scotland has done and continues to do. It continues to innovate in areas such as careers and providing people with access to information about skills opportunities. I recognise the uncertainty that this process has caused for staff, and I am glad that we are moving to a position of greater clarity for those staff who will transfer over and bring their skills to the Scottish Funding Council.

Clearly, Skills Development Scotland still has a really important role to play in relation to careers. I get the opportunity to travel across the country and meet colleagues who are performing that role. However, we do not yet have a final decision from ministers on the full landscape of bodies.

Alan Brown: That is the problem. I am assuming that those are two different issues, because there is the wider public sector reform process, which we know is ongoing, but then there is the programme of work that we are discussing today. Within that programme of work, does Skills Development Scotland now understand what its role will be in terms of the programme that the audit covered?

Damien Yeates: The staff are very focused on apprenticeships and the businesses that support them. With regard to the staff who are transferring, an extensive programme of consultation has taken place. We have identified 130 full-time equivalent staff who will transfer over. Thanks to colleagues at the Scottish Funding Council, Paul Devoy and other senior members of the Funding Council have undertaken extensive engagement with those staff, so I think that the staff are very reassured and they understand the process that is under way. I think that we are confident that there will be a seamless transfer of staff, functions and systems from SDS to the Funding Council by the end of March next year, with everybody ready to go on 1 April.

For example, the contracting for all new-start apprenticeships for 2027-28 is likely to go live today; that represents a joint effort between the two organisations, and programmes will novate over on 1 April 2027. With respect to those staff who were unsure about their future, for those staff who will transfer, there is absolute certainty and there has been strong engagement with our trade union partners and with all involved, so that is very positive. All the other staff have remained very resilient. They are aware of the discussions that we are having with the Scottish Government and they are aware of the wider reform agenda, but they are keen to hear what role they will play as part of the future landscape.

Alan Brown: One hundred and thirty staff is quite a big number to TUPE across. How will it be identified what key resources are required and who the right people to transfer are? I hope that those 130 staff will know what their new role will be and how they will fit in.

Damien Yeates: I want to reassure the committee that this is an as-is transfer, which means that, if someone is performing a role currently, that role will transfer over. If, in the future, there are to be changes, that will be discussed in the future and not now. It is a full as-is transfer—that is really important. There is a lot of expertise on TUPE transfers, and you are right that there will be very careful discussions about who is and who is not in scope. Helpfully, under TUPE, it is set out clearly that that is about the percentage of a person's work that is aligned to a specific function. There is an open process in which all staff are invited to nominate themselves for a potential TUPE transfer if they think that they are in scope, and, if they think that they are not in scope, they can contest that. There is a full and transparent programme around all that.

As you can imagine, many roles lean into different functions. However, we think that about six FTE more than our total current resource will transfer over, so that provides reassurance that, in the totality of the resource, there will be sufficient people to run this as an as-is programme from 1 April. There are a small number of marginal areas in which the roles might be at 20 per cent of current functioning, which means that they will not transfer over. However, Paul Devoy and I have had discussions about the ability for SDS to provide a call-off contract in specialist areas for a period of time if the SFC has any difficulties in managing things.

Mr Kirkwood talked about the transfer of processes and systems and process maps, and a large amount of work has gone into ensuring that there is a transparent understanding of how the programme is running. It is as though we are giving somebody a car, but we are also giving them the driver, so they do not have to work out how to run the car. In the past six months, we have seconded six full-time staff into the Funding Council to support the transition; everybody is committed to making it a success.

I repeat that it is not a case of staff worrying about themselves; they are genuinely keen to ensure, in the current climate, that we maximise the apprenticeship opportunities for young people and that the 11,000 or more businesses that support apprenticeship opportunities do not miss a beat in how the programme is run.

Alan Brown: I have a question for Mr Rennick. Did you recognise the comments in the report about SDS's uncertainty about the future? Have any steps been taken to have positive dialogue on that?

Neil Rennick: Shirley Laing and I have had extensive engagement with both Damien and the SDS board throughout this period. We have talked to them extensively about the process, and we have heard directly about areas in which further information and clarity on the programme have been required. I am hugely grateful for the work that Damien and his colleagues have done in working with the Funding Council to ensure that the transfer can happen effectively.

Alan Brown: Was there SDS input in drawing up the programme?

Neil Rennick: The programme could not have been delivered without the input of SDS and the engagement that it has had with the SFC and the wider programme.

Dawn Black (Angus North and Mearns) (SNP): Thank you for the thorough answers that you have given so far. I was going to begin by asking about staff resourcing and costing, but that has been thoroughly covered already—thank you for that.

Damien Yeates has spoken about apprenticeships. On page 31, from paragraph 85 onwards, the report talks about the reform of the apprenticeship model. I was glad to hear about the progress of the review of modern apprenticeships and that the new apprenticeship contracts are going live today. That is good. The report mentions the redesign of foundation apprenticeships and the establishment of an apprenticeships committee by April 2027. Will you give me more information on that, including whether that is on track?

Damien Yeates: All that work is under way. Joint teams involving the Scottish Funding Council and SDS are taking forward that work, with responsibility, ultimately, transferring to the Funding Council. I will hand over to Paul Devoy, who is leading on the establishment of the

apprenticeship committee and might be able to give some reassurance.

Paul Devoy: Actually, Jacqui Brasted is leading that work, so I will pass over to her.

Jacqui Brasted: It is like pass the parcel.

Over recent months, we have done a lot of work with the Scottish Government and SDS on the apprenticeship committee. We have worked with key stakeholders, including the Scottish Apprenticeship Advisory Board, and employer groups so that we can provide the Government with advice on how the legislation can be translated into what the apprenticeship committee should do and what its membership should be. We received ministerial advice on 1 October, and we have developed standing orders.

Yesterday, we announced our new board members. Dr Jacqueline Hall, who is the head of apprenticeships and skills at BAE Systems, will be the first chair of the new apprenticeship committee. For those who do not know her, I note that she is hugely respected in the sector and knows a vast amount about apprenticeships. For a number of years, she has chaired the SAAB sub-group on standards and frameworks, so she is an excellent appointment for taking forward that work. She will ensure a stable and safe transfer of the national training programmes, and she has a desire to make future enhancements. From that point of view, we are really pleased to have her in that role.

The recruitment process for the remaining members of the committee will go live imminently. Dr Hall will be part of that process, as will Diane Greenlees, the director of national training programmes at SDS, who will be transferring over. We are looking to have members of the committee in post by the beginning of January and to then provide an induction. We are planning a joint meeting with SAAB members before the end of SAAB's term, so that they can share their experience with members of the apprenticeship committee before it gets up and running from 1 April. We are on track for all that.

We are grateful to SDS colleagues who have supported that work and to stakeholders who have given their time to provide views on how things could work most effectively.

Dawn Black: That is really positive.

At paragraph 87, the report states that the Scottish Government has said that its work on graduate apprenticeships

"has not received buy-in from employers."

Can you give more detail on how that work is going? Are we getting more buy-in?

Jacqui Brasted: We know that there is a lot of demand for graduate apprenticeships, and some institutions are increasing the number of those. The Government's target is that there should be 8,000 graduate apprenticeships over this parliamentary session, and we should be on track to deliver that.

One of the challenges has been the number of apprenticeship frameworks. We are working with Universities Scotland and the Scottish Government to understand how we can develop more frameworks in a faster and more flexible way, while ensuring that standards are maintained, which is important. I hope that there will be more frameworks and a more streamlined process.

We will engage further with employers to understand what is preventing some of them from offering apprenticeships, because part of the challenge in meeting the Government's target over the parliamentary session is finding enough apprenticeship places. We know that more people are wanting apprenticeships and that there is an appetite among institutions to provide them, so we need to identify and unlock the issues.

The apprenticeship accelerator grant might help with that, but we are also considering other options. In the next couple of months, there will be a workshop at which we, with Scottish Government and SDS colleagues, will put on the table all the ideas on how to grow the number of apprenticeships. We will consider the art of the possible and talk to employers about what the issues might be and how we can solve them.

Dawn Black: When I have spoken to businesses about taking on apprentices, they have said that they need more help with the costs involved. Businesses are keen to take on apprentices, whether they are at foundation, modern or graduate level. Could you elaborate on what help is being provided to entice businesses into providing apprenticeships?

Jacqui Brasted: I think that the apprenticeship accelerator grant might help, but I will pass to my Scottish Government colleagues to give you information on that.

10:15

Shirley Laing: The first thing that I would point to is the 10 per cent uplift that ministers announced to the modern apprenticeship contribution rates for 2027-28, which will apply both to new starts and to those in training across the system, and recognises the need to take that forward.

As for the apprenticeship accelerator grant, we committed in the programme for government to developing that over the course of this Parliament.

Work on it still has to get under way, but the commitment is there.

Dawn Black: That is great to hear, and it is good to get it in the *Official Report*.

Perhaps I can flip the question round and ask about those who are coming into apprenticeships. Are you seeing the sort of demand that we want? Are schools encouraging people to see them as a valid pathway? After all, a university education has been seen very much as the gold standard for the past 20 years or so, but it does not suit everybody. Are schools buying into apprenticeships and actually offering them as a pathway?

Damien Yeates: Perhaps I can offer a view on that. I think that we have really crossed that threshold now, and demand at all levels is unprecedented. A couple of weeks ago, we were talking to SSEN Transmission, and it is getting 65 applications for every opportunity.

The challenge now is on the demand side and how we support businesses. About 11,000 businesses in Scotland support apprenticeship starts every year; 90 per cent of them are small and medium-sized enterprises, but 50 per cent of that 90 per cent—in other words, 45 per cent of the total—are microbusinesses, which have felt the pain and burden of tax in taking somebody on. There is also the matter of business rates and so on. Those are real issues, but their commitment to providing such opportunities is phenomenal. I should also remind the committee that an employer spends £10 for every £1 of public money it gets, so the balance of investment sits with them.

Therefore, I think that you are following the right line of questioning. We now need to find a way of supporting and encouraging more SMEs to put those opportunities in place, because, if we are creating this demand in young people—and in the parents and carers who advise them—it is best if we can create those opportunities as they transition from school.

I would also say that the Scottish programme is performing really strongly compared with England, and we do not want to lose that. Paul Devoy, Jacqui Brasted and the team at SFC are in a great position now to build on that and take forward an expansion programme.

The new minister's announcement of the 10 per cent uplift in contribution rates is huge. Do not underestimate it—it amounts to about £8.8 million—but it has also landed extremely well as a signal. Given that we have had no movement in contribution rates for nearly 20 years, the move has been very welcome.

I think that the direction of travel is positive, and demand from young people exists; we just need to get behind it. Relatively speaking, I would say that our businesses are doing a brilliant job, with 11,000 every year committing to around 25,500 new start opportunities. That is pretty good.

Dawn Black: That is excellent to hear. Thank you.

The Convener: Thank you, Dawn. I call Miles Briggs.

Miles Briggs (Edinburgh and Lothians East) (Con): Good morning, and thanks for joining us today.

I want to return to Dawn Black's question. Given all the reform that is going on, where are we with the delivery of apprenticeship numbers? We have not really heard any figures on that. The information that we have is that there was demand of between 35,000 and 40,000, and 25,000 apprenticeships were delivered. Where are we with regard to the coming financial year?

Damien Yeates: In any given year, Skills Development Scotland triangulates a number of sources of information. We gather labour market information on where employers are currently signalling demand; we look at past provision and evidence on where we actually delivered; and then we speak to colleges and independent training providers. When we triangulate all of that, we tend to get demand statements in the region of 30,000-plus. Some of that might, of course, involve replication of demand, but we are then confident that we can put out in the marketplace the maximum number of apprenticeship opportunities that the funding will allow.

However, that raises risks with regard to whether businesses can stand up and meet those opportunities. For many years now—excepting the Covid period, which was difficult—we have, generally speaking, hit our target of providing up to 25,500 apprenticeships. The year before last, we went marginally over that number, whereas, last year, we were under it by around 600 places. I would say that that was still an incredible achievement, given the cost pressures that businesses face. This year, at the end of quarter 2—that is, the end of September—we were on track. Compared with the same time last year, we are ahead of profile. As you can imagine, we track progress on a daily basis—our IT systems allow us to do that. We watch the position very carefully.

The committee is right to be concerned about the fact that there are significant underlying pressures on businesses, which is affecting their ability to recruit young people. We cannot be complacent about their continuing to be able to offer those places. However, the committee can be assured that, in the past year, we have maximised all the funding available for employers who want to recruit 16 to 24-year-olds. There should be no

business out there that wanted to recruit a 16 to 24-year-old as an apprentice that was not funded to do so. It is a very important programme.

With all that is happening in the wider environment, you will be aware of the Milburn review. We are very aware of it. The provision of pathways for young people into good-paying jobs is extremely important, and apprenticeships offer an absolute guarantee of that. There is a completion rate of 80 per cent, and 92 per cent of those who complete an apprenticeship remain in sustained employment 15 months after doing so. It is a really good, high-quality programme.

Miles Briggs: That is encouraging to hear. I am probably in a unique position on the committee in that I am the only member who was a member of the Education, Children and Young People Committee in session 6, which oversaw the parliamentary consideration of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill. One of that committee's greatest concerns was that, when such service reform is undertaken, institutional memory is lost in translation, and people wait to see what the end product is before they take up an opportunity, so it is good to hear that the numbers are still on track.

I want to ask about employer engagement, which was another of my concerns when I was a member of the Education, Children and Young People Committee—indeed, it was an issue that I tried to address by lodging amendments to the bill. The Audit Scotland report says that a round-table meeting between ministers and employers took place in December 2025. Is that the last time that ministers considered employers' needs?

Shirley Laing: There was another round-table meeting, which involved the previous minister. If memory serves, I think that that was in June this year.

Neil Rennick: It is important to say that the communication on the programme and the various projects is not done purely through ministers. Our SDS and SFC colleagues who have been engaging with businesses, providers and others deserve huge credit.

As has been said, a balance needs to be struck in the communication. As well as assuring existing providers and students that the funding will continue to be there for the training or qualifications that they are already engaged with, we need to assure them that the potential exists for reform to respond to their needs.

If it would be all right, it might be helpful for SFC and SDS colleagues to say a little about their engagement.

Damien Yeates: Largely, the team that manages apprenticeships in the SDS works with the SFC on a daily basis. Paul Devoy and Diane Greenlees attended the Scottish Training Federation conference, and they go to Confederation of British Industry, Institute of Directors and chambers of commerce events. There is a unified process of communication to businesses to reassure them that our priority is not ourselves but business and apprentices.

The new minister's quick decision to increase modern apprenticeship contribution rates by 10 per cent was a really steadying influence, and the Government's commitment to providing 150,000 apprentices over the parliamentary session is a signal of growth and expansion. Those big messages, along with the day-in, day-out meetings and engagement that Paul Devoy supports, have gone down well.

Paul Devoy: To build on what Damien said, early on in this role, I had an opportunity to attend the Scottish Training Federation conference, at which I did a co-presentation with Diane Greenlees, who works at SDS, to assure delegates of the importance that we place on this area of activity. Jacqui Brasted has been leading on a series of other engagements with employers, which she can describe.

Jacqui Brasted: During the later stages of the passage of the 2026 act, we did a lot of engagement with employer and employee groups and industry bodies to understand their concerns and provide reassurance about how we would take things forward. As I said earlier, we have been working with them on what the apprenticeship committee should look like and ensuring that it has a majority of employers on it. It is really important that that voice is strong within the committee.

We have also been working over the summer with the Scottish Government and SDS, doing some consultation around the apprenticeship committee draft guidance, which is now final. We and SDS have also been providing updates on where we are with the wider context as part of that work. We are developing an employer engagement strategy to go forward across all of our work. We are looking at building on what we and our colleagues who are transferring over from SDS already do, and looking to embed it much more across the wide breadth of our policy responsibilities. We are looking to do that and we have engaged with a great number of those bodies through that process, which has been really helpful in understanding where they are coming from.

Miles Briggs: That is helpful. One of the key messages from employers has always been that we should not make this complicated.

Jacqui Brasted: Yes.

Miles Briggs: The strategic business forum was established in August 2025. How often does that meet? Where does decision making sit with regard to where we will prioritise the opportunities around apprenticeships? That was one of the key themes in the report. I am not quite sure that we have seen that reform really get to a point where employers, such as SSE, can say the numbers that they need, and then the sector delivers them for industry. Who would be the lead in engaging with businesses on that, with the delivery moving from SDS to the Funding Council?

Neil Rennick: Skills Development Scotland obviously still does work around the assessment of skills needs across various sectors.

Damien Yeates: James Russell is involved in the project, and I will hand over to him in a minute. The setting of national priorities and strategic direction is firmly understood to be the role of Government. Under the new skills planning model, Skills Development Scotland is committed to providing Government with labour market information, which could be on local and regional economies, as well as on sectors. The Government will set its priorities and interrogate what it sees by way of demand and gaps. It will engage with the Scottish Funding Council to set provision priorities, and the Funding Council will commit to that work, based on Government direction.

James Russell (Skills Development Scotland): With regard to the flow-through of that model, SDS has a long history in the development of skills action plans and regional skills assessments, which have been derived through employer engagement and employer insight about their future skills and workforce needs. Our role in the skills planning project is now the development of skills needs assessments, which is step 2 in that model. As part of that, with the SFC, we have co-designed with employers what the skills needs assessment framework should look like and what the intelligence base should tell the world and the education system about what is needed. That co-design process went through the project mechanism for agreement with Government and approval to move to the next stage. Following that project, we are now taking forward the piloting and testing of elements of that new approach to skills needs assessment with the construction, engineering and digital sectors. In fact, today, a group of digital economy employers are coming together to start to test out how we bring that intelligence to bear. Employers have a really strong voice in saying what they need from the system, and the mechanism of the new skills planning model creates a flow-through to show how provision flows into that space.

Damien Yeates: If it would be helpful, we could write to the committee and share some information about those pilots, to reassure you that this is not just talk, but practical output.

Miles Briggs: That would be helpful.

Neil Rennick: One of the questions that is raised in the Audit Scotland report is about how this programme links with other Scottish Government priorities around the economy, net zero and public service reform. From my point of view, you absolutely cannot deliver any of those priorities without skills and qualifications playing a role. Shirley Laing and I are engaging closely with our economy, net zero and public service reform colleagues to make sure that those connections are made, and that was reflected in the letter that the previous Minister for Higher and Further Education wrote to the Parliament in February, setting out the priority areas for skills planning. That dialogue is continuing within Government, but is informed by the expertise of colleagues and through engagement with business as well.

10:30

Miles Briggs: I have two further questions. One key risk that is referred to throughout the report concerns the financial unsustainability of the college sector, and the delivery of apprenticeships goes hand in hand with that. What are your thoughts on that aspect? We will look at other reports from the Auditor General on financial sustainability, but it will be critical to delivery in future. We have many institutions that are at huge risk of failure and bail-outs. One key understanding from this report is that the future delivery is based on our college sector being in a strong place.

Neil Rennick: Yes. It is an important point that the programme and the report do not sit in isolation. The report mentions the other work that we are doing with universities on their future success and sustainability. In parallel, and linked to the work on the college sector of the future, in the current financial year, which is 2026-27, additional funding was provided to colleges—it was around a 10 per cent increase. The purpose of that was partly to allow time for us to progress that work with colleges.

I have to give huge credit to colleges, both for the work that they have done over the past few years to make sure that their offer to students is better linked to regional and local business and economic needs, and for the partnership working that has taken place between colleges and universities. On Friday, I saw a fantastic example of a joint project between the University of the West of Scotland and New College Lanarkshire, which is providing opportunities for undergraduate degrees in that area that would not otherwise be

available. There are positive examples of the sectors working together in that way.

Paul Devoy: We are supporting a lot of transformation projects with colleges. For instance, there is a federation agreement between Edinburgh College and Forth Valley College so that they can work collaboratively. There are lots of good examples of innovation and change that will help the college sector to thrive in future.

Miles Briggs: Finally, during the passage of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill, I raised the issue of transparency on apprenticeship funding. Data from His Majesty's Revenue and Customs shows that, between 2020 and 2024, which is the most recent period for which we have figures, £875 million was raised from Scottish employers under the UK-wide apprenticeship levy scheme. Research shows that the Scottish Government has spent just £704 million, when you take into account the money for graduate, foundation and modern apprenticeships as well as the funding of Government quangos. How is the Government tracking that funding? There is £171 million that businesses in Scotland have paid towards apprenticeships that has not been spent on apprenticeship schemes. Where is the transparency on that?

Neil Rennick: The apprenticeship levy comes under a reserved power, and the money is collected by the UK Government. It does not come to Scotland specifically badged as being from the apprenticeship levy; it comes as part of the block grant to the Scottish Government. Like all other money in the block grant, it is for the Scottish ministers and, ultimately, the Scottish Parliament to decide how that is allocated to different areas. There is no direct link between the levy and the money that goes to apprenticeships.

The figures that I have for this year are that around £194 million of investment is going into modern, foundation and graduate apprenticeships from the Scottish Government and the Scottish Parliament. As I say, there is no direct link between the levy and the funding, or transparency on that, because, like almost all other funding, that goes through the block grant.

Miles Briggs: We have heard about the demand. Is there a problem with not being able to meet the demand, which is clearly higher than what can be met, purely because of funding? We need transparency for employers, perhaps from the Scottish Government and the Treasury, on where that money should be allocated to deliver what it was originally levied for.

Neil Rennick: There is clearly a desire from ministers for more modern apprenticeship and graduate apprenticeship opportunities to be available.

Paul Devoy: Obviously, we have a great ambition to increase that opportunity. We want every pound that we have to work as hard as it can, and we also want to remove bureaucracy where we can. We are building on a great system that SDS has created, and we are looking at what we can do to improve that and increase employer engagement with it.

The Convener: We have just covered the importance of communication and engagement with employers. The Auditor General's report also talks about the need to improve communication and engagement with learners and students. What will be done in that regard?

The role of colleges in delivering positive reforms is clear—Mr Briggs covered that as well. However, colleges are under a huge amount of pressure, so communication and engagement through colleges will be challenging.

Neil Rennick: There are a number of different routes through which we engage with colleges and students about the programme. For example, a tripartite group involving the Scottish Funding Council, the Scottish Government and colleges looks at flexible opportunities. The communication is not just between the Scottish Government and others; it is part of the programme. The chief executive of the Student Awards Agency wrote to you about its work in taking on responsibility for the funding of further education, and there was significant engagement and reassurance with colleges and students about that transfer. We reassured them that, as part of that transfer, the current funding would continue, but possibilities would be opened up for future dialogue and reform.

The Convener: I want to follow up on Mr Brown's questions about estimated costs. Paragraph 69 of the report says:

> "savings are estimated to be realised by 2030 but have not yet been quantified."

Obviously, you are doing updated work on the costs. Is the work on the savings happening at the same time? Is there an idea of when we might see quantified savings that are expected to be made by 2030?

Neil Rennick: That is part of the work that we are doing on how bringing together the funding and simplifying the landscape can provide opportunities for better and more efficient use of the resources.

Paul Devoy: Being new in my post, I have taken every cost line through a challenge process, which has involved some of our non-executive directors, too. We will be looking at how we can create an

efficient and effective system, with an absolute focus on how we support economic growth, how we support learners to take advantage of the opportunities that they need to access and how we can make the whole ecosystem work for Scotland's economy.

The Convener: Thanks for that. On policy alignment, we have talked a lot about net zero, public services and the economy, and the Auditor General's report talks about the need to demonstrate how the reforms support and align with the wider policy objectives. The number 1 stated policy objective from the First Minister is tackling child poverty, and the Scottish Government is legally required to reduce such poverty to under 10 per cent by 2030. How will the reforms align with the Government's stated policy on child poverty?

Neil Rennick: From our point of view, widening access and opportunities is an absolutely crucial part of delivering long-term change on child poverty. There are also some fantastic examples of colleges working with local communities, supporting parents and students and helping people to access opportunities. Last year, ministers announced funding through the raising income through skills and education—RISE—programme, which Shirley can talk about.

Shirley Laing: As part of the third tackling child poverty delivery plan, we announced £22 million of additional funding for the RISE programme in colleges, as well as the flexible workforce development fund and the training access fund. That is all in recognition of the fact that the targets relating to tackling child poverty by 2030 are income-based targets. If you are going to take kids out of poverty, you need to put money in the pockets of parents and give them the opportunity to get into good, fair work. As Neil Rennick has said, there is work going on around those additional programmes, which are a holistic, whole family support piece to get folks into employment. Each and every day, colleges offer support to students of all ages to skill them up to get into work.

The Convener: Colleges are doing excellent work to upskill people in order to get parents into work. We can recognise that colleges play an important role, but, when we are talking about aligning with wider policy, how do the reforms make a significant and tangible difference in terms of tackling child poverty? It comes back to the point about evaluation and framework, because we need to see some clear milestones, targets and outcomes on that aspect. We can talk about great examples, but we need to be clear about what will be achieved in that regard.

Shirley Laing: I will defer to Neil Rennick in a second, but I am the former director for tackling child poverty, so you have touched on my passion subject here. My take is that the work that we are doing through the reform to make the system simpler makes it easier for learners to access learning. Earlier, we touched on microcredentials and issues around upskilling and reskilling people to get them back into the workforce if they have been out of it for a while or whatever. All those elements will assist. Making the system simpler and more flexible, agile and responsive to economic need is all about making sure that learners can access the skills they require to get a job in the economy as it looks now. That, in turn, puts more money in their pockets, which lifts families out of poverty.

Neil Rennick: I will mention one specific example of what we are doing. Paul Devoy said that one of the intended benefits of the reform is to improve the articulation of people moving through the system in terms of gaining skills and qualifications. We know that people who particularly benefit from that are those who are least likely to move on to higher education from school. The alternative pathways that we create for people are an absolute driver of tackling child poverty and creating opportunity. Is that a fair outline, Paul?

Paul Devoy: Yes, I agree with that 100 per cent. As someone who came from that background, I can absolutely vouch for that being the case.

The Convener: I think that every member of this committee would agree with the aspiration, but what is key is having a delivery plan to do that and having measurable outcomes to track its progress.

As members have no more questions, I thank all our witnesses for their evidence this morning. I now suspend the meeting to allow for a changeover of witnesses.

10:42

Meeting suspended.

10:48

On resuming—

“Renewable energy: The Scottish Government’s Offshore Wind Investment Programme”

The Convener: We move to agenda item 3. I welcome our witnesses: Stephen Boyle, Auditor General for Scotland; Dharshi Santhakumaran, senior manager, Audit Scotland; and Cornilius Chikwama, audit director, Audit Scotland.

I invite the Auditor General to make a short opening statement on his renewable energy report.

Stephen Boyle (Auditor General for Scotland): Good morning. As you mentioned, convener, we published a report on the Scottish Government’s offshore wind investment programme at the beginning of this month.

Three years ago, the Scottish Government announced that it would invest up to £500 million over a five-year period to develop Scotland’s offshore wind supply chain. It aims to speed up building port infrastructure and supply chain facilities and to reduce risk for private investors, so as to unlock billions of pounds of supply chain opportunities associated with the anticipated ScotWind offshore development projects that we reported separately on and which were considered by the committee a few weeks ago.

The Scottish Government has a clear economic rationale for the offshore wind investment programme. The programme has already supported investment in important infrastructure and manufacturing facilities, and it has attracted significant private sector investment alongside public funding.

However, our report found that there were weaknesses in how value for money is assessed and demonstrated in programme investment decisions. Information-sharing issues also significantly weakened collaboration between delivery partners for a period during the programme. Governance, monitoring and risk management arrangements have not yet been fully developed in line with the programme’s scale and complexity.

Progress with the investment programme has been slower than originally anticipated. Although investments have been made across Scotland in strategically important areas, by the end of July, only 28 per cent of the available funding had been committed, and changing market conditions have made programme delivery more challenging.

There are clear risks to the programme that need to be quickly addressed. Ministers need to improve collaboration between programme partners and strengthen how decisions are made about investments, so that they have the biggest impact. They also need to develop a clear plan for the future that will help to reduce uncertainty for delivery partners and investors.

As ever, Cornilius Chikwama, Dharshi Santhakumaran and I will do our utmost to answer the committee’s questions.

The Convener: Thank you, Auditor General. We will move straight to questions from members, starting with Dawn Black.

Dawn Black: Auditor General, you said that things have been slow to get moving. Perhaps that is a bit of an understatement. It could be that the programme will ramp up as we go along.

I want to home in on a few areas. Paragraph 69 of the report notes that there are reasons beyond the programme’s control for why progress may have been slower than expected. There are planning bottlenecks and objections to schemes coming through. There is also the challenge of the Office of Gas and Electricity Markets’ connection charges for ScotWind and other onshore projects. In other parts of the UK, generators are paid to connect to the grid, whereas, in Scotland, we have disproportionately high connection charges. What difference would a change in that make to the progression of the programme?

Stephen Boyle: I will pass over to Cornilius Chikwama in a moment to say a bit more about the specifics of grid connectivity and any other variables.

In preparing and scoping our report, we have been careful to align it with the responsibilities that Audit Scotland and I have—and, by extension, those of the Scottish Parliament. However, it is undeniable that a number of variables will ultimately determine the success of, and the level of ambition for, this project.

You mentioned grid connectivity, planning rules and transmission arrangements. Those are all variables that must be navigated. We recognise those complexities, but they are not new. Those circumstances would have been known and understood throughout the programme. The point that we try to convey in the report is that an understanding needs to be gained of those variables and of how individual projects can be prioritised to best effect so that progress can be accelerated.

Cornilius might want to say a bit more about that, as well as responding to the other parts of your question. Although those factors remain live challenges that must be overcome, other places

are, in effect, in a race to develop the infrastructure and port capability that are needed to take advantage of the wider benefits before Scotland does. That risk must be addressed and overcome at pace, so that the impact of the £500 million that has been committed is not lost when it is ultimately spent, or is not realised at such a slow pace that other, neighbouring countries are in a position to benefit instead.

I will pause there and bring in Cornilius Chikwama to cover some of the specifics that you asked about.

Cornilius Chikwama (Audit Scotland): We have highlighted the higher costs of Scottish generation and connecting to the grid as potential structural challenges to making progress and perhaps bringing projects online. If that changes, what could happen? That could make Scottish energy generation more attractive and more competitive than energy generation in other parts of the UK, but it is worth recognising that that is only one element of the structural issues that we have identified.

Another key issue to consider is the macroeconomic environment, how it is currently impacting the cost of capital and what that means for developers' ability to commit to development now and to guarantee that those who are building the supply chain will have work to do. As the Auditor General highlighted, the programme is currently focused on infrastructure around port capabilities in some of the port areas and access roads, but a key element of infrastructure will be how we connect to the grid those sites where the energy will be generated. There is still work to do in that area. If that work is not done, that will act as a structural constraint on realising the potential.

The final area that I will highlight is the contracts for difference scheme, which is what rewards energy generation at some of these sites. Most of the sites are still five years or more from coming on stream and are yet to secure contracts for difference with the UK Government. We do not know what the contractual offer will be. That is another potential structural barrier that we need to keep a close eye on, because it could impact developments and therefore the supply chain opportunities that we are trying to unlock with the £500 million.

Dawn Black: I am very lucky to have Montrose port, which has received some of the funding that has been allocated, in my constituency. According to the report, it has received £6.4 million for electrification of the berths. Many of the supply chain companies that operate at the port, such as Subsea Micropiles, have created significant investment for the renewables chain. The funding is working, but, as you said, it is doing so slowly.

Regarding wider economic benefits, including the creation of jobs, there do not seem to be any specific indicators, targets or milestones to start with. Do we have an indication of what the benefits will be and when the realisation exercise will be completed?

Stephen Boyle: Dharshi Santhakumaran might want to address the issue of progress. To step back from the report, the ambition stems from a very clear ministerial announcement. The intent was to create a £500 million offshore investment fund. That was followed by the provision of a strategic outline business case. In the report, we make the point that, typically, the setting out of a strategic outline business case would be the first thing that would be done. That would be followed by the identification of what funding was necessary to deliver the objectives and what, in programme management terms, the objectives and outcomes would be.

We make what is, I hope, a balanced assessment of that in the report. In spite of the programme not having the linear building blocks for delivery that such a programme would typically have, the Scottish Government has taken some steps and has navigated the complexity with partners, particularly private sector funders. However, key aspects that still need to be addressed include the intended outcomes and benefits and how those will be prioritised. In our recommendations, we say that there is work still to be done, but Dharshi Santhakumaran will say something about the specifics of the measurable impact that you asked about.

11:00

Dharshi Santhakumaran (Audit Scotland): We say in the report that, with regard to the milestones and the outcomes that the Government wants to see from the programme, all of that has been underdeveloped. The Government is now carrying out a benefits realisation exercise. We do not know what stage that exercise is at or when it is due to be completed, but we expect that, as part of it, the Government will look to identify more clearly what it expects to be delivered from the programme and when it expects to see those outcomes. Obviously, outcomes such as job generation and other longer-term impacts will not be seen until we are quite a bit further down the road, but we would like the Government to be clear about when it expects those things to happen and to indicate the extent to which those outcomes will be achieved.

Stephen Boyle: I appreciate that the committee will be well aware of this from its other interests, but the specifics of the fiscal framework between the Scottish Government and the UK Government really matter in this context. The framework relates

not only to the wider growth in gross domestic product that might apply here, but to Scotland outstripping other parts of the UK in its activity. The jobs that will be created as a result of this programme will be highly skilled and potentially highly paid, so the importance of the benefits realisation exercise cannot be overstated as a next step in supporting programme delivery, which will involve flexing and taking the opportunity to target particular issues in the "Offshore Wind Focus" document that we refer to in the report.

Dawn Black: Thank you.

The Convener: You make an important point about the fiscal framework and the highly paid, highly skilled jobs that are needed. Indeed, that applies not only to this area of energy policy, but potentially to other areas, such as our nuclear policy and attitudes towards that.

Mr Brown has some questions.

Alan Brown: You have said that the benefits realisation exercise is still being developed. In the light of the fact that the value-for-money parameters have not been sufficiently developed, I note the comment in paragraph 26 that delivery partners "questioned" the use of benefit cost ratio. Have delivery partners themselves suggested what outcomes would be a better measure than BCR? If so, what are they advocating?

Stephen Boyle: I will bring in colleagues to give you some detail on that, but I suppose that your question speaks to some of the early arrangements for the delivery of the project. Benefit cost ratio is a pretty well-established approach in project prioritisation and programme management, but we found that the prioritisation criteria that we set out in the report do not include consideration of the other two value-for-money principles. Therefore, the partners, who, as you would probably expect, are experienced in both public and private sector provision, asked, "What wider range of considerations should be looked at?" Indeed, some of the benefits realisation work that we referred to earlier would be relevant here.

However, Cornilius Chikwama might want to say a bit more about some of the views that were expressed during our audit.

Cornilius Chikwama: On benefit cost ratio, the main issue has been that it involves reducing the indicator of success to a single measure of benefits and how that compares with costs. That goes back to our earlier point about the lack of clarity on the outcomes that are to be realised.

What we have seen with the other partners is that they are already in the business of making similar investments, albeit outside this programme, so they will use a set of indicators to assess the value of the projects, such as the rate of return on investment, the number of jobs that are being created and the gross value added that will be contributed.

If you take that approach, you start to unpack your benefits in a more detailed way, which brings greater clarity to the outcomes that you are seeking to achieve, rather than simply reducing them to a ratio of benefits to costs without having an understanding of what is sitting within that benefit figure.

Alan Brown: Is that causing any tension between partners? If I am picking this up correctly, partly because of the information-sharing issues, each partner will take projects to the investment board almost in isolation. Therefore, if the partners want to use metrics other than BCR, that will make it harder to compare and contrast projects.

Stephen Boyle: You are alluding to the data breach circumstances that we mention in the report. I should clarify for the committee that, as part of the scope of the audit, we did not drill into the nature of the data breach, but it was clear that there was one and that it impacted the functioning of the delivery board and the relationships between partners.

The intent was that a collaborative approach would be taken between the delivery partners and the Scottish Government, and that they would bring their own experience and expertise when considering a range of projects. However, as you rightly say, what transpired during that period was that, instead of a wider collaborative approach, there was, in effect, a default to bilaterals between the individual delivery partners and the Scottish Government. That feels like a period of missed opportunity to apply those wider principles of collaboration and sharing of expertise. As you rightly mentioned—Dharshi Santhakumaran might want to say a bit more about this—a revised information-sharing agreement is now in place.

However, that probably brings us back to the deputy convener's point. There is not a huge amount of time to play with in the delivery of the programme to get in place the necessary infrastructure and investment. Scotland is in a competitive environment with other countries and jurisdictions, so the fact that the data breach happened and that that created a delay feels like a really unfortunate part of the story of the delivery of the offshore wind investment programme.

Dharshi can say a bit more about some of those circumstances.

Dharshi Santhakumaran: I think that it is fair to say that some of the delivery partners' concerns about the use of BCR occurred before the data breach. As the Auditor General said, that was due, in part, to their having their own due diligence

processes and indicators, and there has been a bit of tension around the Scottish Government's requirements and how those interact or align with the processes of the individual delivery partners.

Following the data breach, there has not been the opportunity for the delivery board to function as it should and to consider the shortlist of projects in the round, because those conversations have been taking place as bilaterals between the Scottish Government and the individual partners. Therefore, expectations for the programme and the progress that is being made on it have not been considered strategically, across the piece.

A new information-sharing agreement was put in place in July, so we hope to see improvements in collaborative working, but those improvements need to happen quickly.

Alan Brown: What evidence is there that lessons have been learned from the original data breach, and how do we know whether that has been properly documented? How does that feed into the new information-sharing agreement?

Dharshi Santhakumaran: The new information-sharing agreement includes some additional clauses that set out how the organisations involved would address a future information breach. Primarily, it is about giving whichever partner has had its information leaked the right to take action to address the impact of that without having to show evidence that it has lost money as a result, whereas under the previous iteration of the information-sharing agreement, it would have had to prove financial loss before it could take any action. That is the main difference.

We understand that it took the best part of a year and a half for the new agreement to be put into place. I think that there were tensions between partners on the delivery board about what it should look like and where the liability should lie. I do not think that it is possible for us to say yet whether lessons have been learned. There has not been another breach, so we do not know whether the organisations involved would have reacted better or more quickly.

Alan Brown: For me, the lessons learned need to apply not only to this ongoing project but to whatever other collaborations might take place in the future. Is that not where the Scottish Government needs to apply those lessons?

Stephen Boyle: That is a fair analysis. I refer the committee to the second of the three blocks of recommendations that we make in the report, which speak to the effectiveness of

"governance, collaborative leadership and oversight"

arrangements through the delivery board that need to be strengthened. We call for:

"formal terms of reference for the Delivery Board, updated governance arrangements to reinstate the originally intended"

collaborative working to support

"investment decision-making for the programme"

and, to go back to some of the fairly standard hallmarks of effective governance,

"risk … management"

arrangements, which need to be in place earlier and more effectively.

Lessons learned absolutely need to apply to the information-sharing agreement, but wider objectives around stronger and more effective governance through the delivery of the programme also need to be addressed.

The Convener: I have a supplementary question on the data breach. For the record, are you able to tell us what data was leaked, what entity leaked it and, so that lessons can be learned, how that failure occurred?

Stephen Boyle: It is primarily for the delivery partners to provide that detail or be clear about what they can share directly with the committee in public. We have only a partial picture of some of the circumstances, so I am reluctant to give you a false impression without the full detail.

I hope that the report makes clear, and that I have confirmed in my evidence, that we have not audited the specifics of the data breach, but rather have audited its implications. I do not think that we use these words in the report, but it effectively led to a lack of trust and clarity between partners that went against the intent that the governance arrangements would be collaborative. Different partners were meant to bring their experience and expertise to support investment decisions, but they instead held time-consuming bilateral discussions rather than collective discussions about the specifics.

Mr Brown's point and your question are really important. As Dharshi Santhakumaran mentioned, the updated arrangement has been in place only since July. The robustness of that arrangement, the agreement and what follows are most important. However, with regard to the detail that you are looking for, it might be for the Scottish Government and its partners to take a view on what they can set out for the committee.

11:15

Alan Brown: To close out this area of questioning, and to get things clear in my mind, I would have thought that the whole point of the process was to achieve greater collaboration between the partners. In order for that to happen, it is necessary to be able to share commercially

sensitive information, but in a protected way. Is that not the aim? Did the data breach occur because the information-sharing protocols were not sufficient, or was it simply the case that the information was still deemed to be too commercially sensitive? I would have thought that we would want the partners to work as one and to share commercially sensitive information, so that we can get to a point at which the best investment decisions are made on the various strands of information that are available.

Stephen Boyle: You are absolutely right. That was the intent when the delivery board arrangements and the information-sharing agreement were set up, but that did not happen—or rather, there was a breach and a resultant breakdown in trust that remained unresolved for 18 months, which led to a lack of the intended collaboration among experts. It was very unfortunate for the delivery of the programme that it did not harness and benefit from that expertise in the way that was intended, which gave rise to additional resources and costs, as we touch on in the report.

The scale of the delivery of the project was hugely significant for some of the organisations involved—that was certainly the case, as we say, for Highlands and Islands Enterprise—relative to their other capital investment activities. There are undoubtedly issues to be resolved and worked through, but the new arrangement has been in place for a relatively short space of time. It will be for the Scottish Government and partners to set out in more detail—should the committee decide to take evidence on this—how they are overcoming the difficulties and reinstating collaboration and trust between the different parties.

Alan Brown: I want to return to the outcomes or returns on investment. You touched on the fact that many of the delivery partners would often use the metric of the number of jobs created.

In case study 1, you highlight the Sumitomo factory, where 330 jobs are being created. That involved a combined public sector investment of £23 million, which levered in a huge amount of private sector investment. On the face of it, that seems like a great return, which boosts the BCR, but the public sector contribution works out at £70,000 per job. Is that a useful measure? Is there a general guideline metric on what you would expect job creation to cost the public purse, if that makes sense?

Stephen Boyle: Cornilius Chikwama might have that detail to hand, but I will say a few words first.

I agree with your assessment that the Sumitomo investment in the port of Nigg represents a very successful project from the point of view of the scale of private sector investment—of which there has been £326.5 million—to public sector investment. We cannot overstate the importance to the leveraging or crowding in—whatever language we use—of private sector investment by the delivery partners around the anchor of public sector investment. Typically, the ratio of private sector investment to public sector investment is expected to be about 3:1, but, for the Sumitomo project, the ratio for the first tranche of development is 14:1 and, for the follow-on investment across both projects on the same site, we are talking about a ratio of 11:1. The scale of private sector investment to public sector investment has been hugely significant and beneficial.

I will bring in Cornilius to talk about the success measures that you have asked about.

Cornilius Chikwama: The cost to the public sector of realising each job could be one of the indicators, but we as Audit Scotland would not really say that there was a specific threshold that would determine whether a particular number was right or wrong.

It probably goes back to what we should be looking at in assessing the value for money of these types of projects. The cost per job might be one element. We could ask, “What is it costing us to achieve the outcomes?” However, we also want to look at measures of efficiency and ask, “How efficiently are we delivering the programme?” This is where some of our findings around pace of delivery might be highlighting issues around efficiency in delivering the programme. We also want to be looking at outcomes—what does this mean for the people or the communities where these projects are being undertaken?

From our perspective, we would probably challenge the Government to be thinking about a wider suite of indicators to underpin the assessment of value for money. This is where one of our key findings in the report is coming from. There is an absence of metrics or benchmarks to measure value for money. As the Auditor General says, we have these high-level measures around how much private sector capital we want to leverage from £1 of public sector investment, but those measures are not telling us about what it actually means for the communities. We are just looking at money rather than the real impact on people’s lives.

Alan Brown: Thank you.

The Convener: It is about understanding that there is a big difference between the Sumitomo project, in terms of that 14:1 ratio, and the other projects. It is really important to understand the specific differences between the Sumitomo project

and the other projects, because there is clearly a big difference in that private to public investment ratio.

Stephen Boyle: You are absolutely right. It is about the success and the scale of the Sumitomo investment. We give some of the detail in case study 1 of the report. I do not want to be imbalanced and say, "Were it not for the Sumitomo investment," but just extending that line of thought, if that investment were not there, it would look like a very different set of results.

It is clear how significant the Sumitomo port of Nigg development is for the progress of the programme in its entirety. It is also the case, as you are referring to, convener, that without the relatively high private sector investment through Sumitomo—there is a bit more detail on that in exhibit 7—we would not be in quite the same space of private sector investment looking so healthy across other projects. The committee may wish to explore that further. I am very happy to say more about it.

Looking back, one of the original principles was that the programme would primarily be not so much grant led by public sector investment but more about loans or equities. Clearly, the benefit from those two latter types is that they are repaid and recycled for future investment. With a grant, on the other hand, the contribution is then locked into those developments.

The point is, I hope, clear in the report. It is about the somewhat skewing impact of the Sumitomo investment on the scale of the progress, the leveraging of private finance and the nature of the relative type of public sector investment that has taken place so far.

The Convener: Yes. If you exclude the Sumitomo project, there is £705 of private capital for every £1,000 of public money, so there is a significant difference without it, as you point out.

David Kirkwood: I do not have much to say on this. My views on offshore wind are fairly well known, but, for the avoidance of doubt, I think that it is, at best, pointless; at worst, it is hugely damaging to the economy. In every case, it produces very expensive and unreliable electricity, so I am not a big supporter of offshore wind.

Alan Brown: Apart from that, it is a good thing.

David Kirkwood: Apart from that, it is fine—aye.

The first sentence in the key messages says:

"The Scottish Government has set out a clear economic case to spend … £500 million",

but, in your opening remarks, you said that the Government set out a clear rationale. Those two are not quite the same. I think that I understand the rationale, which is that the £500 million of public money being spent—largely in the North Sea—will produce supply chain benefits and consequentials in education and training, in that it will upskill the workforce. I can understand that, but I do not understand the economic case for doing it. Does the economic case exist as a single document somewhere that I could read?

Stephen Boyle: I will pass to Cornilius shortly, because this is very much his area of expertise.

As we say in the report, Mr Kirkwood, the chain of events was perhaps not quite in the traditional programme implementation timeline that you might typically expect. In October 2023, the Scottish Government announced £500 million of investment, which led to a strategic outline business case instead of a full business case, which, as we say in the report and as you might be familiar with, would be more typical sequencing.

We go on to say in the report that there were sufficient compensating actions in the round that set out the rationale for that—including the alignment with ScotWind and the crowding in of finance—but that has not fully mitigated some of the judgments that we arrive at across the totality of the report, which Cornilius can expand on as he wishes. There is a need for better prioritisation and clearer value-for-money intention. A benefits realisation exercise is happening latterly. There are matters to be addressed that set out the rationale—that is probably my use of language—but not necessarily the totality of the suite of measures, indicators and timelines that would be more traditional in the delivery of a complex programme of this scale.

Cornilius Chikwama: On process, the Government produced what it termed the "programme-level strategic outline business case", which is where it made the arguments for why it is worth while making an investment in this area. We have looked at the business case, if I can just use that as shorthand, and it looks at the market failures that the Government is trying to address with the £500 million, which are things that, without Government intervention, would not happen.

I think that the Government realised that there are certain activities and projects that are needed—public infrastructure, in particular—and that would not happen if the public sector did not make an investment. It identified that there are areas in which things could happen but perhaps not at the right scale to maximise the available potential. The final thing that it highlighted is that there are things that could happen but perhaps not fast enough. That speaks to the point that the Auditor General made earlier: to realise the potential, we have to move quickly, because we are in competition with other countries. That is the

assessment of market failures and where the Government saw opportunity to add value.

The challenge with the business case is that, at the time when the funding decision was being made, there was no certainty on which of the individual projects would be funded, because those would be demand led. As investors came forward with individual projects, there was a detailed assessment of the projects to determine those that represented good use of public money and those that did not. That is a legitimate approach, given the nature of the investments that were being made.

My only other point is that, at the time, the Government looked at similar projects that had been funded elsewhere in the Scottish, and potentially UK, public sector. Its view was that, for every pound it spent, it would expect projects of this type to generate an additional £2. However, that assessment was made at the programme level, before the Government started looking at individual projects, which came on stream after the decision to invest £500 million had been made.

11:30

David Kirkwood: You used a very interesting phrase: "market failures". Would I be wrong to define that as a situation in which people with sound business sense do not see an opportunity to make money, and the Government has to step in to provide profit for private enterprise?

Cornilius Chikwama: That might be the case. However, there are a number of reasons why that might happen, and I will give some examples from the report. In some cases, value can be generated, but that value cannot be commercialised or captured in a commercial sense. We highlight examples of ports that are not operating on a commercial basis, so there might be a commercial return to be realised, but that is not what motivates their investment decisions. In that case, because the commercial benefit cannot be realised, the public sector might have to step in and provide investment to enable certain things to happen.

There can be co-ordination failures, too, when it comes to some of those investments where individual investors or bodies are working independently. That might affect either the timing of projects or, in some cases, whether they happen at all, because the required co-ordination does not take place. You can view the fund as providing an incentive or a focus for that co-ordination to happen, in order to unlock the potential that was identified in the supply chain.

Stephen Boyle: I will briefly add to that. I suppose that it is not really for us to take a view on the merits of the Government's choice to make an investment. I am sure that there will be many different arguments about how public money can be used, but what we seek to set out in the report—I agree with Cornilius's point—is that the intent was to provide an anchor, enabling public funding to leverage private sector contributions. It could be argued that, without that public sector investment, a commercial entity would be taking on all the risk and all the up-front costs, which might lead to a business decision not to proceed.

As we have already touched on, the Scottish Government's planned investment is intended to accrue wider value in the form of well-paid, highly skilled jobs, sustainable communities, and so on. You are very familiar with that context, Mr Kirkwood. Our judgment is not on the merits of the investment, but on the progress and pace of the programme and, ultimately, whether it is on track.

It is important to highlight to the committee that we have not made a fundamental judgment about value for money at this stage because of the pace of the project. However, value for money needs to be integrated more clearly into the investment decisions and the prioritisation that the Government and its partners are making.

The Convener: You do not make a judgment about the merit of the investment, but the method of investment is under scrutiny. To follow on from Mr Kirkwood's point about the significant public investment that is going in, I note that the ratio of public to private investment in the Sumitomo project is quite significant. We have seen a trend from loans to grants. Does that mean that repayable loans and equity stakes are becoming increasingly important for the Scottish Government to consider or implement as methods of public investment?

Stephen Boyle: I agree. That speaks exactly to one of our recommendations about the need for clearer future project prioritisation and its connection to value for money, the types of projects that are being supported and their location. I refer to exhibit 8. You might infer from that, perhaps from the Sumitomo project and others, that certain types of activity are more attractive to private sector investment.

We recognise that the Government will base its decisions not just on immediate return—there are wider considerations with regard to particular parts of the economy in different parts of Scotland—but the recommendation is, at its heart, about what you have just asked about: how prioritisation is being carried out with regard to private sector investment, highly skilled jobs, sustainability and the recycling of investment, if that is the intent behind public sector contributions to different projects.

David Kirkwood: A business case would set out the investments necessary to achieve an

objective and the profits expected from the project. What profits are expected from this project? Are we talking about just financial profits, or are we talking about changing emissions, too, which is what the climate change project is based on? What is the purpose? Is it just a disguised jobs creation and infrastructure improvement programme?

Stephen Boyle: We can say more about the detail of the strategic outline business case, but if you are asking about the delivery of specific climate reduction targets, my recollection is that that is not part of the specifics. This is more about making an economic contribution to deliver supply chain benefits, which we talked about a few weeks ago, through harnessing the initial, and anticipated, significant returns from the ScotWind leasing round. For Scotland to benefit from projected ScotWind returns over many years, it must have the necessary infrastructure in place. It is one of the key enabling contributions to wider supply chain benefits and job creation, rather than its being directly aligned with contributions to climate or CO_2 emissions reductions.

Again, I will turn to colleagues and see whether they want to add anything.

Cornilius Chikwama: I can follow up on that. The Auditor General is right—it is not really for us to make the case for the investment. Instead, what we are sharing is what we have seen in the business case.

The starting point was the ScotWind leasing round, in which developers were invited to submit supply chain statements, as I think they are called. In those statements, they identified that about £28 billion-worth of supply chain activity could be realised in Scotland as a result of developments on the 20 sites that were subject to the ScotWind leasing round.

At the time that the business case was made, it was estimated that there was a pipeline of projects worth between £6 billion and £8 billion that could be delivered at a certain point in time. The judgment that was made was, perhaps, to unlock that £6 billion to £8 billion, with the Government investing about £500 million. Those are really the mathematics—if I can use that term—in terms of the value, where that value was coming from and how it related to the £500 million. It is set out in the outline business case.

David Kirkwood: I think that that is about it from me, convener.

The Convener: I call Miles Briggs.

Miles Briggs: Good morning, and thanks for joining us today.

Having read the report, and having heard some of the answers to our questions this morning, I would say that seeing whether all this is on track feels a bit like taking a stab in the dark. I have to say that I was taken aback by some of the points that you make in the report. For example, paragraph 76 says:

> "At this stage in programme delivery, there is limited evidence available to assess the extent to which these outcomes are being achieved."

I have to say that it is not clear from your conclusion what the impact on the investment will be. When it comes to ministers providing that clarity, what do you expect to come from that? After all, there has been a lot of movement with regard to whether the supply chain funding will actually be realised, and that is quite concerning at this stage, if we are not talking about the public money that is being put forward.

Stephen Boyle: We would agree that there are a number of moving parts to this investment—that is exactly the point that you are making—and that even small changes or additional investments can skew the relative ratios or the progress towards the £500 million target.

As well as highlighting the need for clarity on benefits realisation, jobs metrics and the recycling of investment returns, I would signpost the committee to the final tranche of recommendations in our report. As we look towards the end of the signalled timescale, with the current programme ending in March 2029, much will depend on the progress on delivering the £500 million, and we have already talked this morning about the need for more pace in that regard. Moreover, once the review of the outline business case has been completed, the question will be: is there any clarity on progress?

Most fundamental of all, perhaps, is the need to provide clarity to stakeholders, partners and the Parliament on the progress that is being made. Is the programme delivering the intended outcomes? We recommend that within the next 12 months—that is, before the end of next October—further detailed clarity be given on the success, and progress towards the completion, of this investment.

Miles Briggs: Thanks for that.

I do not know whether you can answer my next question, but it is on the issue of the benefit cost ratio—the two-for-one, as it were—that has already been touched on. Given that we are talking about a lot of private investment that would be happening anyway, and given your caveat in the report that the benefits in a BCR are represented in monetary terms, so benefits are "purely financial" and might not include, say,

"job creation or combating climate change",

that ratio seems very low, given the public money

that is being put forward. In what respect would the Government outline a different benefit arising from the significant amounts of public money being used?

Stephen Boyle: It is an important question, although it is one for Government rather than for us, and it relates to measures of success. The benefit cost ratio is one of the measures, as are the crowding in of additional investment, job creation and sustainability. Thinking of other ratios, particularly with regard to the leveraging of private finance, I note that a ratio of 3:1 is referenced in the material as an appropriate indicator, but we make it clear in our report that there has to be better prioritisation and more focus on achieving value for money, not just in the here and now but all the way through to the completion of the project in the round. There needs to be a fuller assessment of the benefit cost ratio and whether it is sitting right at the heart of an individual project progressing as intended. There is certainly a range of factors to be considered now.

Miles Briggs: In paragraph 6, which is specifically on risks, you conclude:

"Given the current stage of investment and long-term nature of these expected outcomes, it is not yet possible to conclude whether the investments will deliver value for money. Instead, our assessment focuses on the risks to achieving value for money as a result of how money is invested, managed and delivered."

Given the money that has already gone into, for example, port investments, are those things also being seen as public assets? How is the Government quantifying that? What I am interested in looking at is, when public money is being spent on assets for private companies, how those assets can be utilised by other companies, what the wider benefit to the economy might be and how all of that is being audited.

Stephen Boyle: In truth, it varies. When the public sector gives a grant to a private organisation, it will be subject to a range of conditions. More often than not, though, if the money is being paid to a private sector provider, the asset in question will not be in the public sector—it will be owned by the private sector provider.

As for the auditing and scrutiny of that sort of thing, there will, typically, be a funding agreement between the public sector and the private entity and, provided that the grant conditions are met, it might end at that point, or there might be a follow-through exercise thereafter.

The wider point is that, with a grant, the money is gone—it will be with the private sector. Loans and equity stakes are, of course, a bit different, because a funding agreement with loans still affords the public sector rights, and it is similar with equity. Some of that will be recorded in public sector accounting. To go back to the original intent, loans and equity stakes afford more rights and longer-term interest, and the recycling of that investment, once the equity stake concludes or the loans are repaid, is a stronger use of public money into the longer term.

11:45

Miles Briggs: Where does the balance between those agreements present a risk in relation to achieving value for money? Some of the agreements that you outline in the report between different companies seem not to follow a pattern of reducing that risk; they seem to be more about trying to get companies to invest.

Stephen Boyle: That is why we recommended a clearer process of project prioritisation, so that the question of what one type of investment in one location can allow relative to another is more clearly understood and applied. Value for money will not be quite so direct that it can only follow that particular approach—indeed, Government and ministers can take a view that value can be achieved through a range of different metrics, so some of those agreements might just have to be led with grants instead of loans or equity stakes, because grants produce wider benefits. Of course, that is for ministers to determine. However, getting through that process will be helped by clearer prioritisation arrangements than we have seen thus far.

The Convener: Paragraph 55 is quite interesting. You state:

"While value for money is considered during project prioritisation, there is no consistent, documented follow-up. More recent changes have introduced additional value for money monitoring",

which is positive to hear. However, you go on to say that it is only

"for some projects, indicating that the approach is continuing to evolve."

It is little wonder, therefore, that you conclude that

"board members have reported a lack of shared understanding of progress and impact".

That additional value-for-money monitoring is only for some projects and not all, so, obviously, that approach would need to be expanded. However, the paragraph suggests a bit of a piecemeal, reactive approach.

Stephen Boyle: There has clearly been iteration in the course of delivery of the programme. I cannot help but feel that there was a pretty important period of time when it was not functioning as well as it ought to with regard to governance and prioritisation, for the reasons that we have discussed.

As we set out in paragraphs 56 to 59, however, there is evidence that learning is happening. You can see that some of the issues that we set out in the report are being addressed. It is healthy and welcome that gateway reviews are taking place, and the amber judgment that is referenced is not unusual. However, to go back to the point on which we have touched several times, pace is needed around that work because of the wider competitive environment that Scotland finds itself in.

The Convener: You have talked about the need for pace, about progress being slow and also about the lack of a plan for the offshore wind programme after 2029. Was the Government able, during the audit, to provide an idea of when a post-2029 strategy will be produced?

Dharshi Santhakumaran: No, we have not heard anything definitive about when it will announce what might or might not happen with the programme and whether it will continue in some form after March 2029. Clearly, because the pace has been slower than expected, because of the change in the market conditions and because a lot of those projects are large, multiyear ones, it is really important, given the changes in the circumstances, that it considers what it wants to do as we get into the latter stages.

The Convener: There is—

Stephen Boyle: My apologies, convener. It is exactly that. As the committee will be familiar with, large, complex capital projects do not always conform to a particular milestone or end date. That is some of the risk in relation to the role of the public sector. The stability of and clarity around duration are matters for public sector confidence and scrutiny. Equally, as we have heard from Government during our audit with it, predictability on private sector investments gives certainty. That is why we recommend in the report that there be clarity on what will happen after 2029, because, although we are three years away from that point, the complexity and duration of some of those projects suggest that it will be an important step to take in the relatively near future.

The Convener: So, there is no post-2029 plan or definitive idea from the Government on whether the programme will continue. Is there a plan to determine whether there will be a plan? Has the Government indicated how it will go about looking at that issue? Will it consult with industry partners on continuing the programme?

Stephen Boyle: Cornilius might want to say a word about that, too, but I would say that it is now very much now for Government to set out its intentions to Parliament along with its other priorities. It might be for us to defer to the Government to share its planned next steps with the committee in response to one of the report's recommendations.

Cornilius Chikwama: We enquired on that point, and what Government indicated to us—which we have noted in paragraphs 96 and 97—is that it is reviewing its outline business case to reflect those changing market conditions and the progress that it has made. It has not indicated to us when a decision will be made, but it looks as though consideration is going on through the process of refreshing the outline business case.

The Convener: Thank you for that. Members do not seem to have any further questions, so I thank all our witnesses for their evidence and I move the meeting into private session.

11:52

Meeting continued in private until 12:17.

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