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Public Audit Committee

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Thursday 5 November 2026

Session 7

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PUBLIC AUDIT COMMITTEE
9th 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:

Andy Kerr (Scottish Government)
Jackie McAllister (Scottish Government)
Alastair Milloy (Crown Estate Scotland)
Gillian Morrison (Crown Estate Scotland)
Ronan O'Hara (Crown Estate Scotland)
Iain Wallace (Scottish Government)

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit Committee

Thursday 5 November 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 ninth meeting in session 7 of the Public Audit Committee. Agenda item 1 is a decision on taking business in private. Do members agree to take items 3 and 4 in private?

Members *indicated agreement*.

"Management of the ScotWind leasing round"

09:30

The Convener: Item 2 is consideration of the Auditor General for Scotland's report on the management of the ScotWind leasing round. I welcome our witnesses. We are joined by, from the Scottish Government, Andy Kerr, director general for net zero; Jackie McAllister, chief financial officer; and Iain Wallace, director of marine; and, from Crown Estate Scotland, Ronan O'Hara, chief executive; Alastair Milloy, director of finance and business services; and Gillian Morrison, head of offshore wind development, energy and infrastructure.

I invite Andy Kerr to make a short opening statement.

Andy Kerr (Scottish Government): Thank you, and good morning.

As the convener said, I am director general for net zero, which means that I am responsible for land, land use, marine, energy and climate action in the Scottish Government. I have been in this post since December 2025. I am joined by Jackie McAllister, chief financial officer, and Iain Wallace, who is the director of the marine directorate.

I very much welcome the opportunity to appear before the committee on Audit Scotland's report on the management of the ScotWind leasing round, on which I want to say a couple of words. I very much welcome the thorough and thoughtful approach that the report has taken to the ScotWind issue, and I very much accept all the recommendations that are aimed at the Scottish Government.

A key theme of those recommendations is the need for transparency on the ways in which the funds were generated and the ways in which they will be used and have been used. We recognise the importance of transparency in this context, and I hope that we can help in that space. We will continue to provide information on ScotWind revenues, including on the planned and actual use of the funds that are generated, as we currently do through the annual budgeting and financial reporting processes.

More broadly, I am pleased to have an opportunity to talk about the Audit Scotland report, because ScotWind is genuinely a significant opportunity for Scotland as a whole. Given that it will support economic potential and help us to deliver on our net zero outcomes, it is incredibly significant that we try to make it work, and that is at the heart of what we will be talking about this morning.

It is worth saying that the ScotWind leasing round was and continues to be grounded in very close collaboration between us and Crown Estate Scotland. While Crown Estate Scotland holds responsibility for the design and delivery of the leasing round, we, as the Scottish Government, have set the policy and planning context, and we perform an assurance and scrutiny role for Crown Estate Scotland.

We will endeavour to answer your questions as well as we can.

The Convener: Thank you, Mr Kerr. I invite Ronan O'Hara to make a short opening statement.

Ronan O'Hara (Crown Estate Scotland): Thank you, and good morning. I am the chief executive and accountable officer for Crown Estate Scotland. I joined in September 2022 and have been in post for four years.

Crown Estate Scotland is a self-financing public corporation that is tasked with safeguarding, managing and developing the Scottish Crown estate. That includes four rural estates, much of the foreshore, and—this is particularly relevant to this session—the seabed. All the net surplus revenue that we generate after maintaining the estate goes to the Scottish Government, including the £755 million that was raised from the ScotWind leasing options. In total, since Crown Estate Scotland was established in 2017, the estate has raised more than £1 billion for the Scottish consolidated fund.

When it was announced, earlier this year, that Audit Scotland was to look at the ScotWind leasing process, we welcomed that news, because of the opportunity that it provided to share clear and authoritative information to explain the approach that was taken and the reasoning that underpinned the design of ScotWind.

The Auditor General highlights the fact that ScotWind represents a decade-long piece of work, and that the effect of the decisions that have already been taken by Crown Estate Scotland and the Scottish Government, along with decisions yet to be made by others, will not be known for many years to come.

The report has advised improvements for any future process like the ScotWind leasing round, and we have already taken that advice on board. We were happy to do so, and we are actively advancing the recommendations.

I am pleased that the Auditor General's report on the ScotWind leasing round stressed the potential rewards of the round and the scale of the opportunity that it offers to the country, while recognising that it will take many years to be realised.

I am joined today by Alastair Milloy, who is Crown Estate Scotland's director of finance and business services, and Gillian Morrison, who is Crown Estate Scotland's head of offshore wind. We look forward to answering the committee's questions.

The Convener: Thank you.

I welcome the fact that you both accept the Auditor General's recommendations and the findings of the report. The Minister for Europe, External Affairs and Energy, Stephen Gethins, has said that the audit vindicates the Government's approach. Given that the Auditor General has explicitly refused to provide a value-for-money conclusion, how can the Scottish Government claim that the report vindicates the Government's approach?

Andy Kerr: In answering that, I will make two points. First, the design of the whole ScotWind process, which started nearly a decade ago, is a multidecadal piece. From our perspective, we were very pleased that the Auditor General recognised in the report that we had sought to maximise the outcomes for Scotland, particularly through the supply chain development statements, instead of just taking up-front wins from the one-off leasing of the seabed round. I think that that is at the heart of the issue here.

I do not know the exact context in which the minister made the statement that you cited, so I am not going to try to argue one way or the other on that. We would argue that ScotWind represents a long-term, large-scale opportunity for Scotland, whose value will come once we start to see some of the projects being built out. At that point, we will be able to make that judgment much more effectively.

The Convener: Seeking to maximise revenue and actually maximising revenue are two different things. At this point, the Auditor General has said that it is too early to deliver a value-for-money conclusion. Do you accept that? You have accepted the report's recommendations, and the statement that it is too early to deliver a value-for-money conclusion is in the report.

Andy Kerr: Yes, I would accept that it is early to say, but I want to make a key point.

The process was designed in such a way that there are three parts to the benefits that will come through. The first part includes the up-front ScotWind option fees for the seabed—the £755 million—and the additional innovation and targeted oil and gas, or INTOG, funding, which was out of scope for the Auditor General's report.

Secondly, once projects begin to operate, up to between £80 million and £110 million per year could potentially be earned in annual rent from these projects. That is almost a degree higher than the £755 million. In other words, the real benefit to the Scottish Government relates not only to the £755 million but to how many of the projects develop and get up and running.

The much bigger opportunity, which is at a level beyond that—at the moment, it could be worth up to £29 billion—relates to the supply chain statements and how much economic benefit will come into Scotland. The design of the whole ScotWind approach was not about maximising the front end—the option fees; it was very much about maximising the benefit to Scotland of the three parts of the process taken together. In particular, it was about maximising that third part, whose value is a degree higher than what we are seeing with the £755 million.

In that sense, when we talk about value for money, we have to keep those three elements in mind. Whether we have operational projects will determine whether we realise value for money. If we tried to maximise the up-front fees that the Scottish Government received, we would put at risk the amount of money that we would get from operational projects, which I can pick up separately. In other words, it was a trade-off. When we talk about value for money, the question is about the point at which we regard it as value for money. It depends on how many projects come through.

The Convener: The other aspect is the lack of a single business case before the leasing round. You mentioned that you are not sure in what context the minister could say that the report vindicates the Government's approach. As there is no single business case, what objective baseline are we going to measure the success of the ScotWind leasing round against?

Andy Kerr: I will hand over to Ronan O'Hara on the development of the business case, because that was done by Crown Estate Scotland as the operator of the leases. From the Scottish Government's perspective, I was pleased that the Audit Scotland report recognised that all the different elements that I would expect to see as an accountable officer were available: the choices, options and risks were laid out and were discussed at the Crown Estate board meeting, as they should be, and they were shared with the Scottish ministers at the appropriate time. Although it is best practice to have one overall business case, all the elements were completed over a period of time, so all the information that I would expect to see in a business case was developed and delivered for the board and the Scottish ministers. I am less worried about whether there was an overall business case.

Ronan O'Hara: That is an important question. Paragraph 1 of the Auditor General's report refers to the absence of a single overarching business case. Paragraph 56 of the report is also quite clear in stating that the component parts of a business case were there in the round. I would add that, ultimately, it was a highly considered process that started in 2018 and was operated rigorously over a number of years leading up to 2020.

If I may, I will talk to the convener's point about the basis on which we would look back in future years to assess success or value for money. In 2018, the strategic objectives that the initiative sought to address were clearly established, as set out in paragraph 19: the creation of new offshore wind projects in Scotland that were designed to be attractive to developers and, ultimately, seeking to maximise the local and national benefits flowing from those projects.

The Convener: You mentioned 2018. When ScotWind launched in 2020, the cap on the seabed feeds was just £10,000 per square kilometre. Only months later, the uncapped option in the rest of the United Kingdom raised billions of pounds. Why was the analysis of the commercial value of the Scottish seabed so wrong?

Andy Kerr: Mr O'Hara, do you want to come in first? I will then come in separately.

Ronan O'Hara: The short answer is that I do not believe that it was wrong. The analysis was done at a moment in time and reflected market conditions. Offshore wind is a market, which means that it is dynamic and changing, and it has peaks and troughs. The moment in time at which an analysis is conducted to determine the price will reflect market conditions; they can be low at one point and high at another. Up until that stage, the general principle of applying a cap was customary practice. Rounds 1, 2 and 3 of the leasing rounds in Scottish territorial waters prior to the establishment of ScotWind all employed capped or fixed elements. There was a subsequent change in the marketplace, when evidence and independent advice were taken to allow comfort and assurance that the correct pricing point had been applied.

09:45

The Convener: On that change to the cap, it appears that you initiated a rapid review only in 2021, following the auction in the rest of the UK, which raised significantly more money. You say that the analysis was not wrong. However, if that review had not happened, we could have lost nearly £700 million. If you are saying that it was not wrong, you would have happily let the options be

auctioned off at the £10,000 per square kilometre cap if we had not had that rapid review on the back of what happened in the rest of the UK.

Ronan O'Hara: The first thing is that there was a material market change, so it was right and proper, in terms of due process and due diligence, to reassess.

The Convener: Mr O'Hara, was the material market change a result of what happened in England and Wales in the auction there?

Ronan O'Hara: Yes. We are referring to round 4 and the prices that were achieved in round 4. To answer the question requires a consideration of the difference between ScotWind and round 4. They were fundamentally designed, proposed and put to market on a different basis.

Round 4, in my opinion, was brought to market with the express objective of achieving high up-front cash receipts from some of the best water in the UK, but there was a small amount of it at a time of high market demand. That serviced a particular strategic objective for those jurisdictions.

ScotWind was designed on a completely different basis, which was to create long-term, lasting value that supported industrialisation. It brought to the market some of the best winds in Europe, but Scottish waters are not directly comparable because they have several unique associated constraints, considerations and risks.

I will ask my colleague Alastair Milloy to provide more granularity on why direct comparison makes sense on the one hand but does not do so when you go into the detail.

Alastair Milloy (Crown Estate Scotland): The main considerations for such a comparison include the distance to get the power from the wind turbines to the market through the grid; the grid connections from the site to shore; and the demand in those different areas. The technology considerations include the depth of the water, the conditions of the water and the severity of the water. It is an investment decision with a 60 or 70-year life cycle, so all those conditions were considered in relation to the construction, the delivery and the design, as well as the upkeep and the development.

In many cases, the waters that were included in ScotWind would require the use of newer technology in relation to water depth and fixed turbines, or require longer turbines, new jacket technology, hybrid technology or, indeed, floating wind design, which was not in place at the time, whereas the waters that were auctioned in round 4 were comparatively easier. That enabled the financial decision to get to a conclusion around enabling that.

The other difference is the annual fee position of round 4. It was not an up-front fee but an annualised fee based on the 10-year option terms. Two of the round 4 options have stepped into lease already. One has been handed back. Two have a contract for difference until they step into lease. Once those projects step into lease, the option payments stop. The £8 billion was a maximum, assuming that it took 10 years for those options to take place, but some of them have already stepped into lease within three years.

The Convener: Thank you for explaining the rationale for the difference in approach between Scotland and the rest of the UK. You have explained the rationale for a cap, but I want to go back to the point about the cap increasing from £10,000 to £100,000. It appears that the reason behind the tenfold increase in the level of the cap was that there was a rapid review following the open auction in the rest of the UK, so we basically had a lucky escape in avoiding the loss of nearly £700 million.

Ronan O'Hara: At the end of the day, something occurred that indicated that the market was in a different place, so we responded to that. Ultimately, the ScotWind initiative is and was designed to deliver a different type of outcome and a different type of value over 60 years. One initiative is about prioritising short-term cash receipts, and the other is about prioritising long-term, wider-value reindustrialisation at a completely different scale.

The Convener: If the £10,000 cap was undervalued, what is to say that the £100,000 cap was not undervalued? In his report, the Auditor General talks about consideration of a £500,000 cap. Why was that rejected, given that we could have raised even more money?

Ronan O'Hara: Why I believe that the £100,000 pricing mark was right comes down to the detail. If we had charged too little, surely we would have let all 20 sites on the first attempt, but we did not—we had to go back and have a clearing round. If we had charged too little, surely we would have been able to let all the space available, but we managed to let only 92 per cent of the available space. If we had charged too little, surely we would have achieved £100,000 for all the sites that were let, but that was not the case. If we had charged too little, surely we would not have experienced terminations. If we had charged too little, surely there would have been an active secondary market in which people traded and banked the proposed or hypothecated uncaptured value, but there was no uncaptured value to capture.

The Convener: If you did not charge too little, why were there 74 competitive bids fighting over just 15 areas?

Ronan O'Hara: There were 74 competitive bids because of the scale of the attractive opportunity in a growing and developing industry. However, at the end of the day, not all bids were compatible, attractive or valid enough to reach the final assessment.

The Convener: You will accept that, when demand outstrips supply in a functioning market, the price normally goes up. I want to bring in Scottish Government officials on this point, too, because the Government also has oversight of the matter. When you saw the level of bids being made, why did you not reconsider the cap, given that you got the initial £10,000 cap wrong, although you have suggested that it was not wrong at the time?

Ronan O'Hara: I would suggest that the cap was right at the time and that it was right when it was revised, based on market conditions. I come back to the point that, although there were plenty of bids, the reality is that they were not all good and awardable. Indeed, we did not manage to award all 20 sites on the first attempt, based on the quality of the bids.

Andy Kerr: I will make a couple of points. If we were to speak to the UK Government, those in the industry and academics who have been looking at the matter, they would also argue that round 4 was not just slightly out of kilter but an extreme outlier compared with other rounds across the UK. In that sense, we have to be very careful about treating that as the benchmark that we are measuring against.

Indeed, as you have heard from Crown Estate Scotland, our conditions are very different, as are our costs of operation. You will see in the annex to the Audit Scotland report the number of floating projects being planned; it is a very nascent and higher-cost technology, we operate in tougher environments and so on. In that context, the overall costs are higher in Scotland than in England.

Why did ministers not sign off on a higher number? Again, I come back to this question: where does the real value sit? At the moment, we are very much focused on the one-off up-front option fee, and we have gained about £755 million from it. Had we gone for something two, three or four times that, we might have got, say, £1.5 billion or £2 billion instead, but what if that had essentially increased the costs of doing business? We need to remember that buying access to the seabed—that is, the option—does not necessarily lead to an operational project. There are three parts to this: you have to buy access to the bed; you have to go through the planning and consenting process, which is where many of the current projects are at the moment; and then you have to go into a competitive auction in order to get access to the market. We have projects that will be bidding against other projects across the UK; if you put very high fixed costs up front, they become less likely to get through those auctions and get access to the market and, as a result, you end up with a much lower number of operating projects.

Again, we might have made another £2 billion or £3 billion, but if we had lost 30 per cent of the projects because they turned out not to be viable, we would have lost £10 billion of economic benefit to Scotland. That was the trade-off that we were trying to make. We did not take massive fees up front, because it would have put fixed costs on the projects; it would have led to increases in electricity prices, which, in a cost of living crisis, would not necessarily have been a good thing either; and it would basically have damaged the long-term economic benefit. That was the balance that we were trying to strike at the time.

The Convener: But that might happen to the economic value of the projects. It is not guaranteed to happen.

Andy Kerr: Of course. Indeed, Audit Scotland and the Auditor General have made the point that this is a high-risk, high-reward approach. If you are trying to build long-term high value, you have to take some risks, and that was the risk that we took.

The Convener: It just sounds as if we are hoping that it will turn out well.

Andy Kerr: We are working extremely hard on it. I am going to be back in front of you in three weeks' time to talk about the offshore wind programme, and I can tell you that we are working extremely hard on the enabling works to ensure that Scottish businesses capture the value of what is going on. This is not just about big investment money—real jobs and real businesses in Scotland are benefiting from this, too.

The Convener: We will get into supply chain issues later, but, at this point, I will bring in other committee members, starting with Dawn Black.

Dawn Black (Angus North and Mearns) (SNP): Building on the answers that you have already given to the convener, I want to ask how you would judge in the long term—not just now—the success or otherwise of the leasing approach and how it has been weighted. Will success be judged on the basis of the number of contracts signed and followed through to completion, or on the scale and capacity of projects and the associated supply chain results? Is the latter one a more appropriate measure, especially given that some have already dropped out of leases, and

given that one very large project—which we will come back to in three weeks' time—seems to be creating the majority of the results? How will that be weighted, and what is going to be your measure of success?

Andy Kerr: From my perspective, the measure of success will be projects getting to financial close—that is, they get the money to start the building work. At that point, they will have got through the planning and consenting process; they will have the seabed lease; and they will actually have a route to market with a grid connection and a way of supplying the electricity into the Great Britain market.

The key question then will be: how many of these massive multibillion-pound investments, which have been made over many years, are being captured by Scottish supply chains? That is the real measure of success.

To go back to Ronan O'Hara's point, ScotWind was set up to deliver long-term and widespread economic benefit to Scotland, not to maximise income to the Scottish Government. There are three elements: the initial one-off investment of £755 million, plus the INTOG money; the annual leases, which will be £3 billion, £4 billion or £5 billion over 50 to 60 years, depending on exactly how many projects there are and their scale; and then the much bigger element of the supply chain. That is the real value, and it is where we are trying to get to. It is about whether we are capturing the value for Scottish businesses.

10:00

Dawn Black: You have almost answered my next question. I am interested in the Scottish supply chain, because it is important to ensure that the wider economic benefits are felt in Scotland. Will you elaborate on the level of contracts to Scottish supply chain companies since 2022? Do you have that information? What evidence have you had from the ScotWind leaseholders on that supply chain? What percentage of supply chain contracts going to Scottish companies would be considered to be a success?

Andy Kerr: Again, I will hand over to Crown Estate Scotland representatives on some of the detail, as it has been tracking that closely. From the Scottish Government perspective, we need to keep in mind that we are talking about multiyear processes. We had 20 projects, and we currently have 18, because two have handed back leases. Of those 18, two have been consented and 10 are in planning and consenting, and are seeking to get to the point of getting access to market and financial close. That is the point at which the real spend takes place.

Some hundreds of millions of pounds have gone in and, if necessary, I will provide you with those numbers separately, but Crown Estate Scotland might want to pick up on those directly now.

Ronan O'Hara: I will ask my colleague Gillian Morrison to provide some detail to help to bring that to life. Before doing so, to frame the issue, I point out that the supply chain development statements were designed and constructed to drive sector investment, and that takes a direct and indirect form. We can bring the direct form to life in detail in a second but, on the wider indirect value creation, interestingly, a colleague this morning explained to me that the grid development and planning activity that took place through ScotWind means that, currently, £50 billion is going into wider grid investment in Scotland. That is secondary to and is outwith the supply chain development statements. The process is part of a larger ecosystem, and the benefits ripple across and span many sectors and related areas.

I will pass over to Gillian, if that is okay.

Gillian Morrison (Crown Estate Scotland): To answer the question on investment to date and what it looks like today, we are seeing significant investment in Scotland and across the wider UK as part of the development phase of the projects. Specifically, more than £200 million has been contracted with Scottish suppliers from our projects to date. We do not have a full data set to enable us to provide comparative figures quite yet, because it is an evolving process that we are running. In the last update to the supply chain statements, we included a request for additional information on spend to date.

Your question about what success looks like is important. As has been referenced, success is about clean and secure energy for Scotland, as well as the long-term sustainable economic benefit. When we talk about sustainable investments, that is about a steady pipeline of projects that will come through the system over decades and will sustain the employment of workers right across the industry, from development right through to operations and maintenance.

In the statements, we see the committed anticipated spend for Scotland, which as I have said is under way, and the ambition. Going from where we are to the stated ambition requires continued effort and focus from us, from colleagues in the Scottish Government and from people right across the Scottish landscape, along with industry. I see close working between public sector institutions and the industry, because there is collective ambition to secure that long-term benefit, so that Scotland can deliver for our

domestic market and, really importantly, fulfil the export potential.

We have touched on floating wind, which is a growing sector across the world. In Scotland, we have the opportunity to lead the way and to export that knowledge, intelligence and capability across the globe.

Dawn Black: Finally, I have a wider question. Do you consider that the scale of the current round and the potential restrictions that the UK Government will introduce—I appreciate that we do not have the full details of that yet—will limit the potential for future rounds of ScotWind and therefore the adoption of different approaches and the wider economic benefit that we have spoken about that that could bring?

Andy Kerr: It is worth saying that the planning and policy framework within which ScotWind was developed is the national marine plan from 2015 and the offshore sector marine plan from 2020. I might ask my colleague Iain Wallace to pick up on that.

With the ScotWind round, we effectively put up the options for accessing the seabed that were acceptable for use for offshore wind. In practice, a fair chunk of that has been used, so there is no expectation at the moment of a new round of ScotWind. On the other hand, it is worth saying that the existing projects are in effect decadal ones that will take time to come to fruition. We are already at the end of 2026, and two of the projects have been consented, 10 have not yet completed that process and another six have not even got to that point. They are long and large-scale investments that seek to capture value over 50 or 60 years, and they will come at different times. For us, it is about ensuring that we are ready to support the projects as they come to fruition in the coming years.

Iain, do you want to pick up on any of that?

Iain Wallace (Scottish Government): I have a couple of points on the wider UK question. We are working closely with the UK Government to try to push on a few key issues. One of those involves the National Energy System Operator. We mentioned that it is vital that we accelerate the grid connections and get them in quickly. Another element is the upcoming strategic spatial energy plan. From our perspective, it is crucial that all ScotWind projects are within that and that it helps to maintain investor confidence.

Dawn Black: That is a vital point. Investors need to feel that they are not being squeezed out of the picture by policy when they have invested so much already. Thank you.

Alan Brown (Kilmarnock and Irvine Valley) (SNP): Good morning. It has been repeatedly stated that the main objective in the long term is the potential £29 billion supply chain development and commitment in Scotland. That is laudable and fantastic—there are great reindustrialisation opportunities if it is all delivered. However, in paragraphs 33 and 38, the report confirms that the supply chain development statements were not evaluated as part of the bid process. Is that not a contradiction? We say that supply chain development is key—it is the main aim and where we want to get to—but we did not evaluate the statements as part of the lease and bid assessment. Why is there that slight contradiction?

Ronan O'Hara: The first key point is that the entire process was formed, designed and developed based on independent professional legal advice and taking into consideration state-aid matters. We sought to take a progressive approach and to ensure that what we took to market was valid and robust and would not be challenged. That did not support an arrangement whereby the statements could be enforced, because the supply chain was not in place and there was therefore no ability to say that they were absolute and guaranteed. We had as a design principle the aim of ensuring that the deliverability of what was proposed was at the heart of the decision making.

Alan Brown: If you are checking deliverability, surely that includes evaluating the supply chain development statements. That should feed into the process of lease awards.

Ronan O'Hara: Deliverability is multifaceted. It includes everything from the quality of the team to the funding arrangements. A number of parameters were indeed agreed and set down in the process, but the ability to hardwire and legally stand over an assessment of a future commitment that had not yet been made or future contracts that were not yet in place was not sufficiently developed and it would have been contrary to the advice that was received at the time.

Alan Brown: How does that square with the recommendations of the audit report? One of the key recommendations is that you should

"explore how the evaluation of supply chain development statements could form a greater part of bid evaluation scoring".

Have you explored how you can evaluate those statements to a greater degree?

Ronan O'Hara: Our role involves managing, leasing and letting the Scottish Crown estate, and the learnings apply not just in the context of ScotWind but to our broader activities. We are always taking those learnings, reflecting on them and seeing whether there is a broader application.

With regard to that particular aspect, we continue to take fresh legal advice, to look at developments across the market and to actively see whether we can take a different approach in subsequent and comparable leasing rounds. It is an ongoing process.

Alan Brown: Can you do that? Is there any such advice?

Ronan O'Hara: Is the advice today distinct and different from the advice then? No.

Alan Brown: So, if you were to repeat such an exercise, you would still not evaluate the supply chain development statements.

Ronan O'Hara: It is impossible to say, because the processes are multiyear and there could be multiple changes between now and the time when we would seek to bring an offering to the market. As we said in our opening statement, we remain committed to looking at that and seeing whether things could be optimised or improved further.

Alan Brown: I go back to the point that a key benefit that is promoted is a potential £29 billion commitment to the Scottish supply chain. How do you know how robust that is?

Ronan O'Hara: There are several factors whereby we can take comfort and assurance that the development community is genuinely committed to delivering that. Ultimately, we have a number of levers, including the fact that they have paid a sum of money up front that is non-refundable, so they will want to see this through. If they are not able to deliver on their supply chain development commitments, they will not be able to step forward into the development phase and ultimately realise the long-term revenues, which is their incentive. They are highly incentivised to deliver on their commitments and to see the projects through to completion as set out.

Alan Brown: Okay. Two projects now have their contracts for difference awards. What do their updated supply chain development statements look like compared with the original versions now that they have their CFDs and are moving to market?

Ronan O'Hara: I do not have those two particular examples at my fingertips. Gillian, can you speak to that, or would it be better if we provided the detail in writing?

Gillian Morrison: I can add a couple of bits of information. I will come to the point about the projects that are moving forward, but on the question about how we anticipated that the supply chain statements would have merit and hold throughout the development, I note that lessons were learned from the fixed-wind market across the UK at that time, which demonstrated that a large capacity pipeline would underpin investment. What I mean is that, with one project coming along at a time—say, a 500MW project, then a 1GW or 1.5GW project—the individual projects were not enough to sustain significant infrastructure investment in the supply chain, be that in ports, factories or components for wind power.

There was evidence at that point in time that, in order to generate that scale of investment, you needed a pipeline to be visible. Essentially, that is what ScotWind brought about. When we were looking at the supply chain statements that were coming through, we did so through the lens of capacity-generating investments and the lessons learned from the fixed-wind market.

10:15

You referenced projects that have secured a CFD, which include one of the INTOG projects—Green Volt—and some projects that were in the leasing process pre-ScotWind. As yet, no ScotWind projects have secured a CFD and are stepping through into the leasing stage. The supply chain development statements are updated periodically throughout the development phase. Over a typical 10-year period, we can expect to see three or more formal updates. The projects are encouraged to submit updates as the market evolves and new technology comes to the fore, so that we and, therefore, colleagues right across the public sector are aware of where the opportunities are and how we can support the supply chain companies to meet the demand.

Prior to those projects stepping through to lease, at which point they secure their CFD and reach financial close, they submit a contracted position statement. That measures the success of the supply chain statements, and it involves working through an assessment of what the project said that it was going to do through its supply chain and exactly what it is doing. That is the element that is measured at that time prior to stepping through to lease.

In terms of evidence, we seek evidence of actual contracts. Obviously, they may be redacted due to commercial sensitivities, but the process is robust in terms of what we do and the independent verification of the information and advice that comes through. That flows through the system right the way through the development phase.

The important point comes prior to stepping through to lease. That is when we make an assessment of what the project said that it was going to do and what it has actually delivered.

Ronan O'Hara: To come back to the original question, in simplified terms, there is a minimum requirement in relation to the supply chain that must be achieved if developers wish to step

through into lease, whereupon they can develop and harvest all the financial opportunity that is open to them as a private enterprise. That is where we can take comfort that they will honour what they have said and follow through on it.

Alan Brown: On that point about developers honouring what they have said and following through on it, another consideration is the £250,000 contractual remedy. Have you reviewed whether that is robust? I know that we are still in the early stages, but how does that £250,000 potential fine relate to the scale of investment and the opportunity for somebody to say, "You know what? We can pay that £250,000 and save £1 billion by offshoring the investment?" What review have you carried out since the report was published?

Ronan O'Hara: That is an important question. I understand that that figure of £250,000 looks low, when considered in isolation as a financial penalty. However, that is not the basis on which it was constructed. The advice at the time was that it was not appropriate to put a punitive financial penalty in place.

When you look at the suite of incentives and disincentives in the round, the penalties really involve the loss of the up-front payment, which is considerable and is non-refundable. The developers will have invested heavily in the years between entering into the option process and transitioning into lease. One of the things that comes through in the recent supply chain development statements is that, in the past four years, £1 billion has already been invested in Scotland and the UK in this area. Those are sunk costs for the developers. Further, ultimately, they will lose out on those long-term cash flows or revenue streams—60 years' worth—which will far exceed the £1 billion that you suggest.

There is a suite of incentives and disincentives in the round. I understand that, in isolation, that £250,000 seems low, but that is because it was not designed to be a punitive measure.

Alan Brown: If it was not designed to be a punitive measure, what was it designed to be?

Ronan O'Hara: It was meant to provide compensation for the administrative costs of having to take that step.

Alan Brown: Okay. I must admit that I am not sure about the semantics here, because I thought that the measure was supposed to disincentivise people from not delivering on supply chain commitments.

Ronan O'Hara: There are subtleties in the language and the legal interpretation. It is a financial remedy, not a punitive financial measure. If it would help, we could set that out in writing and share it with the committee after the meeting.

Alan Brown: I think that I will need that.

Gillian Morrison: We should think about what the process was set up to achieve. In essence, it was about changing behaviour across the industry. Instead of developers thinking about what they need to supply for their individual project for their benefit, the approach encouraged a change of behaviour across the sector—we can provide evidence of that—with developers coming together to collectively consider what was possible regarding investment and the supply chain and asking themselves, "How can we take a different approach to investment and supply chain growth? How can we work directly with companies in Scotland when a wider suite of projects are coming through?"

For example, there were forums in which developers representing a number of projects discussed with supply chain companies how one project could benefit another. Supply chain companies were able to say, "If I serve project A, I can see projects B and C coming along afterwards." That will result in a sustainable pipeline, with the growth opportunities underpinning their investment. That was one of the key elements that the supply chain statement was meant to encourage.

As Mr O'Hara said, our approach reflected the advice at the time. The process had not previously been explored in offshore wind leasing or, likely, in many other sectors in Scotland and the rest of the UK. It is an evolving and iterative process, and we are always looking for ways to make the evidence and data that we collect more robust so that we can translate it into something meaningful for our companies and communities across Scotland.

Alan Brown: I am fully behind getting that level of reindustrialisation and manufacturing through different commitments in Scotland—that is where we want to be—but, in relation to the wider collective work on supply chain development, what happens if several projects get to market at the same time? I understand that that is partly outwith Crown Estate Scotland's control, but, when there is an emerging market, the supply chain needs to be built up. If too many projects get to market at the same time, is there the supply chain capacity to meet the individual commitments for each project?

Gillian Morrison: That is one of the key points that we and others have been considering since the inception of the work. There have been investments ahead of time, because it was well understood that, if we wait until a project has secured its contract for difference and financial close, there will be no time to build the supply

chain before the work is needed. We are seeing evidence of investments being made right now—major port and infrastructure projects are taking place across Scotland—and the pipeline and its visibility have enabled that to happen. Those projects will then be ready to serve other projects as they come on stream. As you are right to say, if we wait until that point, the opportunity will be minimal, so investments are taking place now.

It is important to recognise that there is a deliberate focus on capital and infrastructure investment, because the construction and installation of such projects will secure high-value economic benefits. That is why, to date, there has been a focus on ports and manufacturing opportunities.

Ronan O'Hara: Just to build on Gillian Morrison's comments, I would say that one of the many benefits derived from the supply chain development statements is the openness, visibility and transparency that we get across the sector, which helps to avoid the very risk that you have described and enables us to have forward planning and to take a synchronised approach as a whole-sector response. Without those things, I think that the risk that you have described would be greater.

Alan Brown: I want to move on with a question for Andy Kerr and Iain Wallace. Just yesterday, or the day before, the Chancellor of the Exchequer announced that renewable wind projects would be halted unless it can be demonstrated that they lower bills and, critically, that the grid capacity was there for them. It has also been confirmed that allocation round 9 will be delayed. Might that completely pull the rug from under our feet with regard to ScotWind?

Andy Kerr: No, it will not, but we are looking into and trying to work out exactly what it will mean for the projects going forward.

It is worth saying again what I think was flagged earlier: massive multibillion-pound investments are being made right now in the grid infrastructure right across Scotland by SSE, Scottish Power and the like. That is ongoing, and it is not going to be stopped. The issue has been access to market. Do the offshore wind projects have grid connections? Do they have an opportunity to bid into the contracts for difference allocation round?

As an aside, I would highlight as a key point the chancellor's absolute focus on the cost of living and therefore the cost of electricity, and that brings me back to our initial conversation about our not putting in a much higher cost for the seabed leases. Had we done so, the fixed cost of electricity would be much higher. By having a much lower input cost, we are giving our projects more opportunity to move forward.

With regard to your specific question, we are digging into the chancellor's announcement to find out exactly what it will mean for us, which is not entirely clear at the moment. We are continuing to do that work. It does not mean that everything is off the table—we are just trying to understand the pathway through. I would note—

Alan Brown: I was not suggesting that everything is off the table, but surely it could result in projects being delayed or undermined. You talk about the good investment that is going on just now, but if the grid upgrades are not there now, they will not be there for the other projects, either. That is how it sounds to me.

Andy Kerr: What we do not know—and what we are digging into—is what the UK Government actually means when it says that things might be delayed. What length of time are we talking about? After all, as you rightly point out, investors are very concerned about that.

Do you want to pick up on that, Iain?

Iain Wallace: I am happy to come in briefly.

As I have said, the key thing from our perspective—and what we are looking for from the UK Government—is an acceleration of the grid connection dates. That is the certainty that Andy Kerr has referred to, and we need that to give confidence across the market.

We are also looking at the UK Government's replacement of the transmission charging system. If we could get that changed, it would be a big advantage to Scotland, and we are continuing to push for it. Those are two key things that need to change, and we are continuing to push for them.

Alan Brown: Am I right in saying that only two of the six pathways in the strategic spatial energy plan cover ScotWind?

Andy Kerr: Yes.

Alan Brown: So, could some of these projects be eliminated, too, depending on what aspects of the plan are taken forward?

Andy Kerr: That is the conversation that we are having with the Department for Energy Security and Net Zero at the moment.

Alan Brown: What are the timescales for a decision on that?

Andy Kerr: We were hoping that the plan was going to come out—or, at least, that we were going to see a version of the decision by the secretary of state Miatta Fahnbulleh. After all, it is a quasi-judicial decision by her. We understand that it has been delayed a little, so again we are just digging down to find out where we stand on that.

Alan Brown: You have said, rightly, that this is a potentially high-risk, high-reward approach. The point is that much of the risk has technically been invested in decisions being made by the UK Government that underpin the validity, or otherwise, of these projects.

Andy Kerr: That is right.

Alan Brown: Okay. Thanks.

The Convener: I want to go back to Mr Brown's question about the £250,000 penalty fee. How was that figure of £250,000 arrived at?

10:30

Ronan O'Hara: My understanding is that legal and professional advice were taken on board, and custom and practice in the market were assessed, in the development of that figure.

The Convener: As you said earlier, it seems a really low amount when we are talking about the generation of billions of pounds.

Ronan O'Hara: To the eye, it definitely looks low. When we think about the scale and significance of the sector and the profits that some of the actors generate, I agree with your point.

The Convener: Given the earlier discussion about the price cap and the penalties seeming low, do you think that the developers and energy giants that have taken on the licences have got a good deal?

Ronan O'Hara: They have assessed what has been presented as a viable business proposition, but to say that it is a good deal is a step too far. I come back to the thought process that, if it was a good deal—or an overly rich deal—we would not have seen any attrition, but we are seeing attrition. There are projects that, on balance, are viable and that businesses want to deliver through to the end, but the conditions are tough, and I think that we all recognise that.

The Convener: If you were to collect the £250,000 penalties, what would they be used for? Has a decision been made or a policy been set for the use of that money? Given the risk of a loss of supply chain potential, which Mr Brown identified, will any such fines be put into supporting jobs?

Ronan O'Hara: I might ask my colleague Alastair Milloy to comment on that. The general principle is that such money is returned to Crown Estate Scotland, where it is processed. Ultimately, our net surplus revenue gets passed back to the Scottish consolidated fund.

Alastair Milloy: I can confirm that. In the course of the process throughout the year, we will have incurred costs relating to staff, legal fees and other issues. Those flow through into our net revenue surplus. If, at some point in the future, a one-off fee were to come in, there might be some costs in that year. However, as Ronan said, the money would flow into our net revenue surplus, where it could be drawn down by the Scottish Government.

The Convener: Has the Scottish Government decided what it would use the penalty fees for?

Andy Kerr: No, we have not. Jackie McAllister might want to talk about what happens when the money comes in, but we have not anticipated receiving those penalty fees, just as we have not put into the budgets or the long-term spending plans the potential lease income, per megawatt hour, from operating projects. That income, too, has not yet been laid out formally in budgets, because we do not know when it will come in or how much it will be.

Jackie McAllister (Scottish Government): The only thing that I would add is that, once any Crown Estate Scotland revenue comes into the Scottish consolidated fund, it is simply amalgamated with the rest of the Scottish Government's funding—in other words, it just forms part of the overall funding position.

The Convener: Thank you. David Kirkwood has some questions.

David Kirkwood (South Scotland) (Reform): Good morning. For full disclosure, in case you have not worked this out already from research you have done, I think that using wind for baseload generation is madness, so please consider my comments in that context.

The convener has already asked quite a few questions regarding the price cap, which is what I will ask about now, but I want to go back to the rationale for it, rather than the value of it.

Paragraph 20 of the report says that the price cap was adopted specifically

"to avoid the leasing process operating solely as a price-based competition",

but it would not have been a price-based competition anyway, because the consideration of any bid would be based on a weighted matrix of a multitude of parameters. Why was the leasing price not simply given a weighting within that matrix and the lease awarded through an open auction?

Andy Kerr: Ronan, do you want to pick up on that given that you designed the process? I can then comment on the Scottish Government approach.

Ronan O'Hara: Ultimately, the design came back to the overarching objectives, and our view at the time was that we did not want to place a priority on, or give additional weighting to, short-term cash. Instead, we wanted to focus on creating a

large-scale opportunity to deliver projects in Scotland. Deliverability featured in the assessment, and price was set aside because of the strategic objectives.

Your point is valid. I cannot speak specifically as to why that element was not there. Gillian Morrison might have additional comments to make on that, but the overarching principle was to seek to have viable, deliverable projects, and everything was anchored around that thought process.

David Kirkwood: That suggests that you were protecting bidders from overbidding and thereby restricting the funds available for future development. Was that roughly the rationale behind it?

Ronan O'Hara: Overbidding as a concept is not a healthy or productive dynamic in any situation. The approach came back to the need to focus on what we are seeking to achieve as the long-term outcome.

David Kirkwood: You said, "what we are seeking to achieve". As you have also said, there is no overarching business case, but you are seeking to maximise the amount of electricity generated through the leasing round—is that right?

Ronan O'Hara: Not necessarily. Gillian, do you have a view?

Gillian Morrison: There is a dual approach: securing our power through electricity generation and considering the long-term economic benefit. The overarching objectives were essentially seen through those two lenses.

Just to provide an additional point on the weighting or scoring of bids, the process was designed so that price would essentially feature only in a tie-break scenario. If all the other qualitative assessments resulted in a tie for a site, that was the point at which price featured.

David Kirkwood: If you set a price cap, you then open yourself up to the possibility that multiple bidders will bid at the cap level for the best bits of water, in which case that approach does not work as a tie-breaker, does it?

Gillian Morrison: This comes back to the point around the challenges of deploying in Scottish waters, which was uncharted territory. As Alastair Milloy outlined, there were challenges around water depth and unproven technology. We knew at that point that we were looking at water depths of well over 65m, which was generally accepted as the maximum depth for fixed-bottom technology—the proven and established approach. We knew that the process would involve innovation in the marketplace, but also in technology design, which essentially shifted the focus to deliverability. The developers therefore had to demonstrate that they had the knowledge, the technological capability and, indeed, the funding to see them through that really challenging development phase.

Ronan O'Hara: The point is well made. When I look back, ScotWind was a trailblazing, groundbreaking initiative. I think that there are only three initiatives of comparable scale worldwide, including ScotWind.

On the point about whether we should have incorporated price earlier into the scoring or assessment methodology, it is worth bearing in mind that the emphasis was, as I said, on deliverability and viability. Even with those as the primary drivers, we were unable to let all 20 sites on the first attempt.

Pricing applied, but not in the up-front first stage or step, as you described; it was in the tie-break scenario, as Gillian Morrison described. It is fair to say that, for the leases that were awarded, the majority of bidders came in at the upper limit, although that was not universal across the applications received. The construct and the concept were right, and not all of the final contracts or leases that were awarded were at the £100,000.

I believe that the thinking was broadly robust at the time. The question of whether there are learnings to take from that for next time is valid.

David Kirkwood: In the run-up to the process, in 2018, 2020 and 2021, the value of the cap went from £2,000 to £2,500, from £5,000 to £6,000 or £10,000 and then to £100,000. Even now, you still do not know the maximum market value of any of the water, because you set a cap and you have not done a price discovery process. Is that not a bit of a handicap for the next round?

Andy Kerr: You referenced paragraph 20 of the report, and that lays out clearly the rationale, which the Scottish Government was comfortable with. It says:

> "Crown Estate Scotland was clear that the price cap was specifically adopted to avoid the leasing process operating solely as a price-based competition and to reduce the risk of excessive upfront costs impacting project viability."

Bear in mind that, when the round was run, we did not know the cost of accessing the market or the route to market. In other words, there was a series of very large unknowns and a real concern that, if we allowed a much more open price discovery competition, we would end up with people who had overbid and who were unable to take forward their projects.

Given that the overarching aim was not just to generate as much electricity as possible but to build an economic sector, that had to be part and parcel of the considerations. That is actually captured very nicely in the Audit Scotland report.

David Kirkwood: Okay, but were you not taking commercial decisions on behalf of developers by saying, "We're going to protect you against excessive costs"?

Andy Kerr: If developers put a certain amount of money up front for a period and then walk away, that is fine—they have lost something, but it is not huge. If we lose the projects because developers have put in too high a price and then have unviable projects, we will have lost something much bigger.

I go back to one of my first points. We should keep in mind that the option fees from ScotWind were some £755 million but, if we get the supply chains as we would like to get them, the value will be up at £29 billion. That difference is really what we are talking about. The danger is that overspending on one could really damage the other—that is the point that I want to leave you with.

David Kirkwood: I understand that, but if a developer walks away after two or three years and decides that it is not worth it, you have its up-front fee and all the money that has been spent in Scotland already in developing its vision of the supply chain. That money has been spent. The developer hands back the option, and you get to sell it again. If somebody gets the benefit of all of the research that the developer has done, that makes it much easier, and you get a far better vision of the value of that piece of water and a much more accurate price for it.

I do not see why the Government is trying to protect commercial entities against commercial risk. That worries me.

Andy Kerr: Again, I argue that we were not trying to protect commercial entities; we were trying to protect the development of the economic sector. That was at the heart of the process, as laid out in paragraph 20 of the report.

David Kirkwood: The commercial sector looks after itself and does not necessarily need Government management to do that. Nearly 50 years ago, I was working in my dad's machine shop and building parts for wind turbines for Howden's, which were exported. There was no Government intervention at all. The market saw a need and satisfied it. I worry about the Government direction of industry.

Andy Kerr: That is noted, but we should bear in mind that, here, a whole set of decisions are taken by the UK Government, on the auction rounds, the price, the strike prices that are set and the capacity that is being brought through in the rounds. Those are not being set by the market. That is the whole framing for how we deliver this—rightly or wrongly, that is the setting that we are operating in. We are trying to protect our interests in the Scottish economy in that context, rather than there just being a market that we can go out to.

David Kirkwood: Yes, the fact that it is set by Government is rather my point. That is the problem—it is not a market; it is a command-and-control purchase decision.

Earlier, you yourself made the point that a high initial price would feed through into bills. Even if it was £1 million per kilometre, with a 60-year lease, that would be a tiny percentage of the overall cost, would it not? We could have massively increased the amount of money we got from the initial leasing round, with no material effect whatsoever on bills.

10:45

Andy Kerr: With regard to the ScotWind process, you are right. I have seen some credible analysis of round 4 numbers, and, to your point, that was ending up as something like £1 billion a gigawatt, if it had carried through for the full period in relation to the leasing costs for that part of the seabed. There is some credible analysis that that has potential impacts on electricity costs in the future, which, for me, reiterates the point that simply having an open round that sought to maximise upfront benefit would deliver much less positive long-term outcomes than we have at the moment.

David Kirkwood: Okay. On Ronan O'Hara's point about not having leased all of the water at the same time, is that really so much of a problem, given that you can do it again in the future, once the market is better established? A stallholder sets out their goods and, at the end of the day, not everything is gone and the stuff goes back in the box, but it comes back out the next day and they sell it the next day, possibly at a better price. Was there an imperative to get rid of all the lease options at the same time, or could some options have been retained for future markets?

Ronan O'Hara: It was a plan-led approach to bring forward an offer to the market, which was defined through the sectoral marine plan in terms of space and allowing the market to respond. It was not necessarily a problem if it did not all go. In fact, I think that that is where the market got its opportunity to express itself.

David Kirkwood: Thank you.

The Convener: I will follow on from Mr Kirkwood's questions. Page 25 of the Audit Scotland report relates to the innovation and targeted oil and gas scheme, which we talked about. It says that Crown Estate Scotland did

"look to learn lessons from the ScotWind leasing round that could be applied to INTOG. This resulted in a minimum option reserve price rather than a maximum price cap being applied, and a different lease rental mechanism for TOG projects."

Given our discussion on price caps, the fact that Crown Estate Scotland sought to learn lessons and that there was a change of policy from ScotWind to INTOG suggests that the pricing cap was wrong for Scotland, does it not?

Ronan O'Hara: Let me try to provide a bit more detail to answer the question.

Again, I can see that it can appear as though there was a sequential series of events: the ScotWind round, a period of reflection, lessons learnt and then INTOG. In fact, INTOG was designed and more or less set at the time of the rapid review, and the decisions and views around how to approach it and design it had already been taken.

This goes back to the idea or principle that leasing rounds are designed to achieve particular outcomes and to reflect particular market conditions. As we have already said today, ScotWind was about reindustrialisation, long-term value, supply chain benefits and creating industry that can be exported around the globe.

INTOG was two types of completely different projects with completely different objectives. The "IN" element—innovation—was stepping-stone projects, as we call them, which were small scale and innovative, to provide insight and learning to the ScotWind initiative. They were short-lived seven-year options with 25-year—not 60-year—leases, so they were approached on a completely different basis. At that time, sentiment in the market had already shifted regarding that particular sub-sector, and for that reason a different pricing approach was adopted.

TOG, which was in response to North Sea transition deal, was about decarbonising oil and gas platforms. That was designed with a particular life cycle and time horizon in mind. Again, the pricing approach was developed to reflect those opportunities and needs.

The Convener: On developing those different approaches, my understanding is that, on ScotWind, you commissioned advice from Aurora Energy Scotland. Did you take advice from anyone else?

Ronan O'Hara: At that stage, two pieces of advice were provided during the rapid review of ScotWind. There was an independent review, followed by a second independent review by another party that examined and scrutinised the initial findings. The two parties provided discrete perspectives.

The Convener: Who were the two parties?

Ronan O'Hara: JLL and Aurora.

The Convener: Did they do the same for INTOG?

Ronan O'Hara: No; INTOG had a different advisory team.

Gillian Morrison: I would have to check who that was and come back to you. It is fair to say that external advice was sought throughout.

The Convener: Right, okay. There were different advisers for INTOG and ScotWind.

Ronan O'Hara: Let me check that, to be 100 per cent sure. You think they were different, do you not, Gillian?

Gillian Morrison: Yes, there were different advisers.

The Convener: Okay. There were different approaches as a result of that advice.

Ronan O'Hara: Yes, there were different approaches as a result of the advice.

The Convener: Thank you for that. I will bring in Mr Briggs.

Miles Briggs (Edinburgh and Lothians East) (Con): Good morning. Thanks for joining us today. I have a couple of questions to ask about the ScotWind wealth fund. First, will you update the committee on its development?

Andy Kerr: I will start, and then I might ask my colleague Jackie to come in.

You will appreciate that the formal commitment to establish a wealth fund came through the election process and the manifesto pledge. Since the programme for government was published and the formal announcement was made that we would develop a wealth fund, we have started to pull together what the fund will look like. I hope that ministers will now come to the chamber with different options during the next year.

Miles Briggs: Okay. So far, the minister has outlined the potential to establish a fund during this session of Parliament, which means that we have four and a bit years still to go. Do you think that a statement on the fund and its establishment, and the work that is required to develop and deliver it, will happen by the end of this parliamentary session or within the next 12 months? Currently, there is limited detail, despite several MSPs having tried to get the Government to provide that information.

Andy Kerr: Detailed work on the design of the fund and its operation has started, but it is at an early stage. We are considering how the different revenue streams might be handled, how they would interact with the fiscal framework within which the Scottish Government operates, and so on. Those are the nuts and bolts, if you like, that are being worked through before we even start to consider what the fund will be used for once it is in place and operational. We are not at that stage yet,

but I can certainly confirm that that initial work is now under way.

Miles Briggs: That is helpful. You said earlier that ScotWind was not set up to maximise income for the Scottish Government, but that is currently exactly what it is doing. With budget conversations taking place, is your understanding that this revenue would be a slush fund, if you like, that the Government could use to top up its budget and address its current problems?

Andy Kerr: I would challenge you a little on that language. I will hand over to Jackie—

The Convener: I want to know why you would challenge that language.

Andy Kerr: Maybe we have different views on what a slush fund is.

Miles Briggs: You can pick your own words to describe it—that is fine.

Andy Kerr: There is a key point, which has two parts to it. First, as I am the director general for net zero and therefore the accountable officer, the question for me, in terms of all the net zero and environmental goals and so on, is whether we are seeing an uplift in the budget as a result of the money that is coming in. That is one question that I must consider.

The other question is: how do we handle the ScotWind funds? The ScotWind funds and the INTOG funds, if you add the £755 million and the £65 million-odd together, currently sit within Crown Estate Scotland, which operates just outside our accounting boundary. They provide a really powerful tool for the Government in addressing the challenges that it faces as a result of having very limited borrowing and reserve powers.

The funds have something of a double value. I think of them as cream on top of the milk. You include them in the budget, but you really do not want to use them unless you have to. You find that, when there is volatility in the budget—there has been a lot of volatility in recent years, which sometimes falls in your favour, as it did for us last year, but at other times does not—we ensure that, at any given time, if more money comes in, that is spent first. We leave the cream unspent, if we can possibly help it. That is why those funds are useful. Jackie McAllister might want to use slightly more technical terms than I have used.

Jackie McAllister: Andy, you might have just answered the question with a lot of the points that I would have made.

ScotWind revenues are a discretionary funding source, but they go through the same processes as any other decision through in-year budget management, so there is rigorous governance around them. The term “slush fund” perhaps suggests that there is not a level of rigour, but I hope that I can assure the committee that there is plenty of rigour behind it.

I will not repeat the points that have been made, but I will flag the volatility of Scottish Government funding. More than 80 per cent of the Scottish Government’s funding is Barnett funding. The Government has certainly set out its intention in budgets and spending reviews to use ScotWind income, but we also recognise that our funding profile can and often does change following UK Government fiscal events, to which we need to be able to react. It is also the case that our Barnett funding can change in-year, and sometimes quite late in-year, which is why having that discretionary funding source is extremely valuable for us. However, it is always our intention to remove ScotWind funding from the overall assumptions wherever possible.

Miles Briggs: If we look, then, at what a potential fund could be used for, are there any details about the nature of the investments that might be envisaged? The Scottish National Investment Bank has quite a broad set of potential investment options. Would the fund be for community benefit? Would it be for future projects that look towards that 30-year window? Where does the thinking on that currently sit?

Andy Kerr: Those are the options that are currently being worked up for ministers’ consideration. I cannot say any more about that at this point, but those are exactly the questions being considered, given SNIB’s remit, and we are considering the other opportunities in that space.

Miles Briggs: Okay. Thanks. Have any decisions been made on community ownership? I believe that 78 per cent of total ScotWind capacity is now owned by parent companies that are headquartered outside the United Kingdom. I cannot really find any community ownership options at all, so they do not seem to have been part of the early discussions. Was that a missed opportunity?

Quite a few articles have been written by MSPs and community groups, especially in communities that host a lot of the infrastructure, about the lack of community ownership. What might the model look like in the future?

Andy Kerr: We are currently doing a lot of work on onshore renewables in terms of community benefit and how we ensure that communities capture it. We are looking very hard at how we go beyond what has pretty much been the standard community benefits that communities have seen for many years in Scotland. We have been a leader in that space, but we can do a lot more.

I am less familiar with the conversations about the design of the offshore piece, so perhaps colleagues can come in on that.

11:00

Ronan O'Hara: I want to bring back into focus perhaps a higher-level principle with regard to the contribution that Crown Estate Scotland makes through its work. As has been mentioned, when we generate net surplus revenues at the end of each year, all of those moneys flow back into the Scottish consolidated fund, which underpins and supports public spending across Scotland. Therefore, the money does get passed across.

The next level to that question relates to where communities—I will take coastal communities as an example—are observing their coastlines in support of this agenda, and we have a specific set of payments that are reallocated to local authorities once the money goes back into the Scottish consolidated fund. As a result, there are two tiers of tangible, measurable benefit for communities from the revenue that comes to us and that is then passed back to the Scottish Government.

I would also say that there is, effectively, a third level, which is the relationship between the developers and the communities. Is that right, Gillian?

Gillian Morrison: Yes, that is absolutely the case. This is a really interesting area to explore. For example, how do you even define what communities are in offshore wind terms? Are they defined in terms of where a cable comes ashore, say, or in terms of visual impact? Does a whole region act as a community because of the scale of what we are talking about? It is fair to say that this picture has evolved as offshore wind has been developed, particularly in Scotland.

I am aware that developers have been engaging very closely with the communities that they operate in and around, and they have really been testing a potential model of community ownership and community benefit. We do recognise, as I think everyone does, that what we would expect to see flowing back through communities will be at a different level and on a more significant scale than what we will have seen from previous energy generation. That has been well acknowledged by developers, too.

Miles Briggs: That is good to hear. Thank you.

The Convener: Just to follow up on Miles Briggs's question, I know that the term "slush fund" was used, but is this, in accounting terms, classed as a current asset rather than a non-current asset for the Scottish Government?

Jackie McAllister: Are you talking about the Scotland revenues?

The Convener: Yes.

Jackie McAllister: They are not on the Scottish Government's balance sheet, so they do not form part of the Scotland reserve. As a self-financing public corporation, Crown Estate Scotland sits outwith the accounting boundary.

The Convener: Okay. Obviously, there is a question about how the £96 million in option fees has been spent up to now. Indeed, the Auditor General said that it was not clear how the money had supported net zero. Given that you mentioned the importance of transparency at the start of the session, Mr Kerr, can I ask you to respond to that?

Andy Kerr: Yes. I am happy to do so, and I will bring Jackie McAllister in, too. The £96 million, and, indeed, the £7 million in interest on top of that, were spent, in effect, to support the Scottish Government's fiscal position in 2022-23. It is worth remembering that that was the year in which Russia invaded Ukraine and there was a big spike in energy costs and inflation. That had a very tangible impact, as was reported to Parliament in the emergency budget briefing in the autumn of 2022.

The Convener: But there are two things here. For a start, there are the funds that sit with Crown Estate Scotland and that are utilised by the Scottish Government. They are being used on a year-to-year basis to meet fiscal pressures, but that was not always the policy intention, was it? Was the money not meant to be a transformational fund for net zero development?

Jackie McAllister: It is fair to say that, over this period of time, the scope of the use of the funds has absolutely broadened, but Scottish Government ministers have been transparent with Parliament about that broadened use.

The Convener: The Auditor General has noted that drawing down the cash on a yearly basis has limited financial returns and investment options. Have you quantified the additional money that a different approach could have raised if you had not had that ability to draw down the funds on a yearly basis?

Jackie McAllister: We have not quantified that from a Scottish Government perspective. I am not sure whether Crown Estate Scotland has anything to add.

Alastair Milloy: As far as our approach to this is concerned, we have, right from the beginning, worked with the Scottish Government on how we might utilise the funds. Under our statutory powers, we are able to invest that revenue only in bank accounts, so we have had ongoing monthly

engagement with the Scottish Government to ascertain, as early as possible, when the Government needs the funds. We then put them on as long a deposit as we can, until the Scottish Government needs them.

As has been noted in the Audit Scotland report, there have been years when we would have expected the money to be drawn down, only for circumstances to change. As a result, we have further engagement and, usually in February or March, we get confirmation from the Government that it will not need the funds until at least 11 months or a year in advance, and then we seek the best rates.

We spoke to the Government's banking consortium, which is NatWest Royal Bank of Scotland, and to His Majesty's Revenue and Customs, and we also spoke to and liaised with the Bank of England, to see whether there were any other routes that we could use. We also sought confirmation from the Scottish Government that banking outwith the Scottish Government's banking sector, because it was competitive, would not be the thing for us to do. As a result, we sought the routes that I have just explained.

The Convener: Thank you. Do members have any other questions?

Alan Brown: I want to return to the creation of the ScotWind wealth fund. How big a barrier is the fiscal framework to setting that up?

Jackie McAllister: Clearly, work is going to be undertaken to explore that very question. As things stand, the only reserve that we can hold in the Scottish Government accounts, and within the Scottish Government accounting boundary, is the Scotland reserve, which is capped. It is index linked, but it is capped. The figure for 2026-27 is £756 million—in other words, we cannot retain more than £756 million within the reserve.

Alan Brown: If you go over that, that money goes back to Westminster.

Jackie McAllister: That is exactly the case, yes.

Alan Brown: That is a big barrier.

Jackie McAllister: It is something that we will need to look into.

Alan Brown: Okay. Thanks.

The Convener: As there are no more questions, I thank the witnesses for their attendance and their evidence this morning.

11:07

Meeting continued in private until 11:38.

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