The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 29 April 2015

Session 4

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PUBLIC AUDIT COMMITTEE
8th Meeting 2015, Session 4

CONVENER

*Paul Martin (Glasgow Provan) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Nigel Don (Angus North and Mearns) (SNP)
*Colin Keir (Edinburgh Western) (SNP)
*Stuart McMillan (West Scotland) (SNP)
*Tavish Scott (Shetland Islands) (LD)
*Drew Smith (Glasgow) (Lab)
*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Sharon Fairweather (Scottish Government)
Caroline Gardner (Auditor General for Scotland)
Susan Lovatt (Audit Scotland)
John Matheson (Scottish Government)
Fraser McKinlay (Audit Scotland)
Martin McLauchlan (Audit Scotland)
Alyson Stafford (Scottish Government)
Andrew Watson (Scottish Government)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Public Audit Committee

Wednesday 29 April 2015

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Paul Martin): Good morning, ladies and gentlemen. I welcome members of the press and public to the eighth meeting in 2015 of the Public Audit Committee. First of all, I ask everyone present to ensure that their electronic items are switched to flight mode so that they do not affect the committee's work.

Agenda item 1 is a decision on taking business in private. Do members agree to take items 5, 6 and 7 in private?

Members *indicated agreement.*

"Major Capital Projects"

09:31

The Convener: Agenda item 2 is an update on major capital projects. I welcome to the meeting our witnesses, all of whom are from the Scottish Government: Alyson Stafford, director general finance; Sharon Fairweather, deputy director, finance programme management; Andrew Watson, deputy director, financial strategy; and John Matheson, director of health finance, e-health and analytics.

I understand that Alyson Stafford wishes to make a short opening statement. Ms Stafford, you have five minutes.

Alyson Stafford (Scottish Government): Thank you, convener, and thank you for the opportunity to discuss with the committee the Government's six-monthly report on major capital projects. The report is the product of effective collaboration between the Scottish Government's infrastructure unit, Audit Scotland and the committee, and I hope that the committee finds its current format helpful.

It is perhaps worth reflecting on the steps that we have taken together to consider how the Government manages, monitors and reports on major capital projects. In June 2013, the Auditor General for Scotland published a report entitled "Scotland's key transport infrastructure projects", the three main recommendations of which were to improve Transport Scotland's control and decision making; develop scrutiny of major projects by the Scottish Government; and improve the Government's openness and public accountability. Subsequent to that publication and a meeting with this committee, the permanent secretary agreed to review the reporting arrangements for future major capital projects updates and agreed that Scottish Government and Audit Scotland officials should work with the committee clerks on a revised reporting format for future six-monthly updates.

The major capital projects report provided by the permanent secretary in December 2013 included an additional section on actions taken by the Scottish Government in response to the Audit Scotland report, which included a revised reporting format for future six-monthly updates and the refinement by the infrastructure investment board, which I chair, of its framework for scrutinising, challenging and monitoring major investment projects.

We agreed with the committee in its former shape a revised format for the six-monthly major capital projects update to include projects over £20 million—previously, the update looked at projects over £50 million—an annual update on the local economic benefits of projects and progress updates against agreed cost and time parameters for projects that have progressed beyond outline business stage. That approach has been reflected in the updates provided in March and September 2014 and March of this year, and I am grateful for Audit Scotland's positive feedback on the steps that we have taken. I believe that we now have a fit-for-purpose process and format for our reporting, but I am interested in hearing the committee's views on that matter.

The latest six-monthly report illustrates the good progress that is being made across our investment programme, with a wide range of significant projects at an advanced stage. Infrastructure investment remains a key part of the Government's economic strategy and through the infrastructure investment board and our wider governance, assurance and project management arrangements, we are taking steps to ensure that projects are well managed and deliver value for money.

As Scotland has a strong reputation for its ability to deliver major projects and for being an attractive place in which to invest, it is important that we do all that we can to maintain and enhance that reputation, and I would welcome the committee's input in that context. I should say that any very detailed questions about individual projects might best be addressed by those projects' senior responsible officers, and when we get an inquiry from the committee, we always consult the project owners to ensure that members are getting the most robust and best up-to-date information. We will continue to endeavour to get those responses for the committee, and if anything today requires us to take that route, we will signal that and endeavour to come back to you timeously.

That said, I am happy to answer the committee's questions, and I am joined by John Matheson, whose title I will not repeat as it has already been read out by the convener; Sharon Fairweather, who is currently deputy director for finance programme management but as the previous finance director for Transport Scotland brings live experience of Transport Scotland's operational work and of managing individual projects; and Andrew Watson, whose role and responsibilities include looking at infrastructure investment strategy.

Thank you for listening. I am happy to move to questions.

The Convener: Thank you, Ms Stafford. Mary Scanlon will ask the first question.

Mary Scanlon (Highlands and Islands) (Con): Thank you for your opening statement. First of all, as a Highlands and Islands MSP, I want to say that although transport infrastructure is important throughout Scotland it is an absolute lifeline for the Highlands and Islands. We are not talking about five minutes off a journey—the fact is that you just do not move. I also want the Highlands and Islands to be an attractive place in which to invest.

As I have got in first, I seek some clarity on four particular projects. First, I will remain consistent about the A9. In fact, there is nothing more important to the Highlands than that road, but after eight years of a Scottish National Party Government that promised that the whole 110 miles from Perth to Inverness would be dualled, only 7.5km from Kincraig to Dalraddy has been started. There are still 67 miles to dual, and I note that the Luncarty to Birnam stretch has gone to a public inquiry. Given that it has taken eight years to plan to start a 7km stretch in July, is it realistic to expect 67 miles to be dualled by 2025?

My second question is about the Ullapool to Stornoway ferry, which is an absolute lifeline for the Western Isles. Indeed, I travelled on it a couple of weeks ago. I understand that the harbour upgrades were not completed in time and that in July, which is the busiest month of the year, no cars will be able to cross on that ferry because of poor planning.

My third question is about the prison for the Highlands. In 2009, the Government announced £40 million for that prison; however, we are now in 2015, and according to your update, a feasibility study is being done on a potential site. People are getting a wee bit impatient about having the smallest and most overcrowded prison in Scotland.

My final question is about Inverness College, which I visited recently. That is an excellent facility: well done on that. As an ex-lecturer at the college, I would like clarity on the sale of the two existing sites at Midmills and Longman, which are obviously worth a significant amount of money. All that we get in the reports is how much it costs. I would like clarity on how much money from the sale of the sites has been taken into account to fund the new building and how that works with the non-profit-distributing model.

Those are all my questions, convener.

Alyson Stafford: Thank you. I invite Sharon Fairweather to deal with the transport questions first.

Sharon Fairweather (Scottish Government): We have a detailed programme for the delivery of the A9 project. It will be delivered in stages. The programme is still on track for completion by 2025, but stages will come on stream between the completion of the first stage, which Mary Scanlon has already mentioned, and 2025.

Members will be well aware that that is a very complex engineering project, and a whole range of processes must be gone through before going out to procurement for any individual section. I will give members a flavour of that.

Throughout the whole dualling, the bodies that need to be negotiated with in order to take that forward are the Cairngorms National Park Authority, three national scenic areas, 14 scheduled monuments, one historic battlefield, three historic gardens and designed landscapes, one conservation area, 51 listed buildings, seven special areas of conservation, two special protection areas, 12 sites of special scientific interest, two national nature reserves, 142 sites that are registered on the ancient woodland inventory and 222 watercourses.

Mary Scanlon: I think that we have all known that.

The Convener: Just allow the witness to continue, please.

Sharon Fairweather: I am just trying to explain the complexity of the work that needs to be done in order to enable the design work, the public consultation and the statutory processes to be undertaken. As you mentioned, one section may go to an inquiry because of the objections that have been received to the scheme.

We have an obligation to undertake all those statutory processes in a professional way that allows the public, affected landowners and so on to have an opportunity to object before we can progress with the processes of procuring the land and taking forward the scheme. It is therefore a hugely complex scheme to design and take forward. That is why the timetable is that the overall scheme will take until 2025 to complete. However, we will take forward sections as soon as we can and as soon as we have completed all those processes.

Mary Scanlon: It has taken eight years to plan to start 7.5km in July this year. Will the A9 from Perth to Inverness—the full 110 miles and the remaining 67 miles of dual carriageway—be completed by 2025? That was my question.

Sharon Fairweather: That is certainly the plan at this point in time.

The Convener: Can I pursue Mary Scanlon's other questions?

Sharon Fairweather: If you do not mind, I will ask for a more up-to-date position from the ferries team on the question about the ferries. I am aware that there are concerns around the ferry not being able to take cars in July, but I know that alternative routes have been planned for the car traffic during that period. However, I would rather get up-to-date information for the committee from the ferries team on the exact dates for when things will move forward on that. I am afraid that I do not have that information to hand.

The Convener: The committee will follow that up and ensure that we get a response in writing.

Can you deal with the other questions?

Alyson Stafford: Andrew Watson will pick up the question about HMP Highland.

Andrew Watson (Scottish Government): As members are aware, the most challenging issue around the prison has been identifying an appropriate site for the development, given the size of the area that it will cover. There is a strong preference to ensure that the site will be well connected to the transport infrastructure that will support it.

A number of options are being considered, but a site has not yet been agreed. As has been said, good progress has been made recently with the appearance of the option of a potential site. Discussions with the landowner on that are on-going. Progress is being made, and we would obviously want to update the committee as soon as we could on the progress with that.

Mary Scanlon: To be fair, I did not say that progress had been made; I said that, after six years, we have a feasibility study. I do not know whether that is progress.

The Convener: What about Inverness College?

Alyson Stafford: Your last point was about Inverness College.

Mary Scanlon: Yes—it was about the sale of the sites.

09:45

Alyson Stafford: Inverness College is an NPD project and it will be financed by future revenue payments to satisfy the contract for the delivery of the facility, great as it is.

On the sale of existing sites, we will come back to you with the specific information but, as part of managing our overall capital programme, where there are assets that are owned by public bodies, the Scottish Government or its agencies, we look to recycle back into the capital programme receipts that come from the disposal of unused land that is not required for particular purposes. However, we will ensure that we get the latest information on the specifics of the sale of the two sites that you mentioned and we will come back to you on that.

Mary Scanlon: You said that you recycle receipts. If the receipts from the sale of the sites come to more than the cost of the college, will the money go towards the building of the college and the remainder be recycled elsewhere? Is that what you mean by "recycle"?

Alyson Stafford: Capital receipts that come from sites can be used on a one-off basis to invest in capital somewhere in Scotland. The commitment that is being made around Inverness College is an NPD, so the financing involves making sure that, in future years, the revenue that is required to pay for the contract will be made available. There is a particular funding stream that will ensure that the college is paid for over the lifetime of the NPD contract. That commitment has been made by the Scottish Government.

If there are sites that are part of public ownership that will give us one-off receipts when they are made available, that gets factored into the overall capital programme.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Good morning. My first question is about schools, in which I have a particular interest. On page 16 of your update to the committee, you mention Newbattle high school, and you state that construction started on 23 March. I am aware—I hope to get clarification from you—that there have been some delays with schools as a result of the need to comply with new European Union regulations. Can you give us more information on that and advise what sort of delays we are talking about?

Alyson Stafford: I will pick up on the general issue around the EU regulations and the impact that they are having on schools. The information stands, in line with the answer to the inspired parliamentary question that the Deputy First Minister set out to the Parliament on 13 February. We are still waiting for the process of review by the Office for National Statistics to be completed. That review is based on one particular project—the Aberdeen western peripheral route—but it is the first opportunity since the new European rules came in to test the appropriateness of the contract structures that we have in place.

In relation to schools, we are trying to ensure, through the Scottish Futures Trust, that individual projects are as far advanced as they can be so that, as soon as we have the information from the ONS, we will be in a position to keep the progress moving.

Colin Beattie: Do you have a timeline from the ONS?

Alyson Stafford: It has said that the process can take several months.

Colin Beattie: Has it not had several months?

Alyson Stafford: It is still working on it. It has inches of detailed legal documents on the AWPR and it has the European system of accounts 10 position from Europe. Equally, guidance is continuing to evolve around the interpretation of ESA 10, so it is still a moveable feast. As you would expect, we keep in touch regularly with ONS and we ensure that, if it requires any information to help it with its analysis, we provide it, but we still expect it to take a bit longer. It will be a few more months before we get a conclusion from the ONS and a resolution to the matter.

Colin Beattie: Is it correct to say that any work on schools is at a halt, including starting construction and issuing contracts? Is all that on hold across the board?

Alyson Stafford: Through the SFT we are doing everything that we can to ensure that everything that can be ready is ready when the information and position are clear. I am still encouraging local projects and teams to see whether there are other things that they can address, so that we can be as far advanced as possible when we have that clear position and are able to move forward.

Colin Beattie: So, you can do everything up to the point of completing the contract and actually starting the work.

Alyson Stafford: Yes.

Colin Beattie: However, we do not know when you will be able to start.

Alyson Stafford: That is fair, yes. That is the position that we are in.

Colin Beattie: How many schools are affected? Has none of the schools started construction?

Alyson Stafford: When the IPQ was put to Parliament, eight schools were identified as being on the list of schools that would be in the next phase of activity. They are the ones that are more immediately affected.

Colin Beattie: Convener, it might be useful to get that list of schools for the interest of members.

The Convener: Can you provide that?

Alyson Stafford: Yes, of course.

Nigel Don (Angus North and Mearns) (SNP): I am sorry, but I do not understand; I am sure that you do not really want to explain, because it sounds as though it must be complicated. Once the ONS gives you a view, is that it? Or, as I suspect, will we be in a position in which courts might disagree with somebody, and you might actually go through a very long process before you are sure what the position is?

Alyson Stafford: The contract is one of the first that the ONS has looked at since the issue of ESA 10 and, more important, the more recent interpretation guidance, so the ONS will want to do a thorough job as quickly as possible. However, there is every possibility that it may wish to go to Eurostat to get further clarification. That is because the guidance is very new, as I said, and is evolving. In addition, Europe is taking into account the analysis that is being done not only of projects in Scotland but of projects—and their design—across Europe.

As Nigel Don said, the landscape is complex. There is a tremendous amount of detailed paperwork, of which further interpretation is needed.

Nigel Don: Is there a risk of the delays becoming interminable because you feel that you are paralysed, for understandable legal reasons?

Alyson Stafford: I am chair of the infrastructure investment board, and I am sure that you can appreciate that the whole thing has been about keeping up the momentum around these areas.

There are risks, which you have identified, and we are doing everything that we can to mitigate them and to keep up the traction and activity around this. However, there is a collision between having a long-term programme of investment that has, as we have rehearsed, long lead times in a number of cases, for the necessary reasons—to get everything in place—and the moveable parameters that are coming through from Europe, which is driven by different things and is looking at how things play for countries that use the euro as their currency.

Colin Beattie: Can you reassure us that the delay will not affect public or private funding of the projects and that the funding is earmarked? I would not like to see the projects put at risk because we are sitting here waiting for legal clarification.

Alyson Stafford: The SFT's role on all those projects is to liaise actively between the consortium of funders, the designers, the builders—the people who are likely to be the contractors supplying the work—and, equally important, the local authorities and local communities that have a very real interest in seeing these particular projects happen.

I restate that we are actively managing all the risks that we possibly can and we will continue to make representations to get speedy resolutions, because of all the points that you raise.

Colin Beattie: Are you comfortable that funding will remain in place?

Alyson Stafford: We have a good track record of relationships with the different people who come together in these consortia. We have the established landscape of hubcos and the architecture around that. I do not see that being at risk, but we will continue to manage it actively; we would not want to be complacent about those things.

Tavish Scott (Shetland Islands) (LD): I wish to continue the same line of questioning, starting with the question that you have just been asked by Colin Beattie. The north hubco's private sector partner has changed since the present hiatus started. I would be very hesitant to suggest that there is no risk when there has already been a change of private sector partner in one hubco—has there not?

Alyson Stafford: I think that what I was saying in response to Mr Beattie that there are risks to manage. That is the whole reason why the SFT is active in this space. I can bring in John Matheson if that is helpful, as he is on the oversight board for hub and hubco. He can say a little bit more about how we are getting the governance and the assurance around the things that you raise.

John Matheson (Scottish Government): There are five arrangements in Scotland, but I will focus on the north one. You are absolutely right, Mr Scott: the partner has changed. However, that was unconnected to the ESA 10 issue, which was totally unrelated. As a result of that change, some of the projects that were in the pipeline have now been expedited. The Forres health centre project is now concluded, Tain health centre is now open and we have a good, rich pipeline as far as the hubco is concerned.

The governance around that is very important, which is the point that you are touching on. We have the territory partnering board, which all the local authorities and health boards in the area, and the police, fire and ambulance services, are part of.

Tavish Scott: I know all that. What I am interested in is the risk and what happens if a private sector partner changes. The hiatus has already lasted seven months, having started in September last year. That is not your fault—it is coming out of the ONS. Colin Beattie alluded to this. What is there to say that a new private sector partner will stay with the programme when there is no certainty on the timescale for it being allowed to get on with the schools that are now being and have been delayed? There is no financial close on Anderson high school in Lerwick, as you well know.

Alyson Stafford: I do well know. That is absolutely right. We are not alone in managing the risk. A lot of the private sector partners are involved in mixed-economy financing arrangements, not just in this country but across Europe. We have had some partnerships involving the European Investment Bank. We have a very active pipeline where the EIB is involved.

Tavish Scott: But it is not involved in the ones that we are discussing.

Alyson Stafford: I appreciate that, but I am giving the general picture. We have been very transparent about this. It is a point for consideration, further clarification and the further evolution of guidance across Europe. It is therefore something that is affecting the businesses concerned on a much broader span. We are in the vanguard with the AWPR and a lot of other projects. We are still able to offer investors good, well-run projects at good, sensible rates, with assured safeguards of funding as we go forward. I am not seeing anything that is diminishing that confidence.

However, you are right that we should remain vigilant, and we absolutely will. We will keep up our communications with the various parties, and we will keep the right amount of pressure on the ONS, which needs the time to do the work, so as to get a timely response and mitigate the risks and keep them in a manageable space, at least.

Tavish Scott: You say that the guidance is evolving. Do you mean on a weekly or monthly basis? What does that mean in practical terms?

Alyson Stafford: Some guidance was issued on interpretation at the back end of 2013, before ESA 10 was implemented in September 2014. Between then and another set of guidance coming out in August 2014, things had changed. With ESA 10, the clue is in the number: it was in 2010 when the arrangements were defined. It took some time between 2010 and the autumn of 2013 even just to put out guidance about how it should be interpreted. In the months to August 2014, it changed again. Because more people are now starting to use the guidance, to raise questions and to test it with real-life examples, that is now a more active space. That is why I talked about the guidance evolving. The rhythm and intervals at which we can expect things in that regard are not defined.

Tavish Scott: So it could go on for ever. I know that it is not for ever, but it feels like it to me—it feels like it for members such as me, trying to get a school built in our constituency.

Alyson Stafford: I can only restate what I have said.

Tavish Scott: I understand that.

Alyson Stafford: We remain vigilant. We obviously all have the same shared endeavour.

Tavish Scott: I agree. I will ask you a better question. You made a very fair point about the AWPR. Has the Government taken legal advice about whether the issue of a ruling on the AWPR generally directly affects all the other projects in the pipeline?

10:00

Alyson Stafford: Sharon Fairweather can talk about the advice that has been taken on the AWPR.

The Convener: I ask you not to use acronyms.

Alyson Stafford: Sorry. It is the Aberdeen western peripheral route.

Tavish Scott: Sorry, convener. The old transport bit of me came out there. I apologise for that.

The Convener: It is just to make it clear for the record.

Alyson Stafford: We will both make sure.

Sharon Fairweather: We have taken considerable advice on the financial side around our assessment of the classification of the Aberdeen western peripheral route. I believe that we have taken some legal advice on how the ONS decision fits with Westminster and other bodies and how we apply the accounting. I am not sure that we are completely clear as to the legal basis of Eurostat, but the ONS makes the decision as to how the Government has to apply the accounting of the projects.

Tavish Scott: Would it be ridiculous to suggest that the schools programme could therefore continue? What is the risk if the Government continues with it and reaches financial close on all eight schools that Colin Beattie and I have referred to on the basis that you do not know whether the ruling on the AWPR will directly affect the rest of the capital projects programme? In other words, could the Government get on with it?

Alyson Stafford: As well as addressing your point on that judgment, I will address your point on the legal aspect. Obviously, the Government's statutory responsibility to Parliament is how we account for activity. We have an established method that requires the financial reporting manual to specify how we treat these types of contract. That method is not in question at all, and we do not need to seek legal advice about our statutory accounts.

There is another school of thought on the international financial reporting standards—I will try to avoid causing everyone's eyes to glaze over at this point. However, there is a clear picture around that. Thankfully, our statutory obligations to Parliament and how we account are much more straightforward. This issue reads across to the administrative arrangements that are determined country by country—in this case, it is done by the UK Treasury—for how items are budgeted for. The issue is the budgeting.

Just to be absolutely clear, that does not have any cash impact at all—the flows of cash are not affected at all. It is about the nature of how activities are represented by the UK Treasury in the budgeting guidance. In fact, we have still to see budgeting guidance that takes into account ESA 10 in relation to the projects in question, for the reason that I have already rehearsed, which is that we are in the vanguard of the activity.

Tavish Scott: I take all that, and I think that it is very fair. However, if the problem is an accounting procedure, I think that quite a lot of us would think, “Solve it.” However, my final question is on how you are accounting to this committee. With regard to the schools that we have mentioned this morning, there is no note to this committee in the report—for example, in relation to the table in annex A, which includes reference to the Anderson high school project—that says all that you have just said.

What you have said about the capital projects is a very material issue for all the committee and there should be a note in the report to the committee about what is going on, which should be regularly updated. As the AWPR issue started in September, I really think that the onus is on the Scottish Government to keep the committee up to date with it. I would therefore like to have an assurance that that will happen in future in these reports. If there is any kind of major issue that is slowing down a project, we should know about it and it should be in the kind of table that is in annex A. In fact, the table is structured in such a way that it suggests that the Anderson high school project will start tomorrow; I drove past the place yesterday and I can tell you that it ain’t starting tomorrow, so the table is not accurate. I ask that you get that right in future.

Alyson Stafford: We obviously want to make sure that the information is accurate. I am happy to commit to including in future reports the kind of information to which you have referred. As I mentioned in my answer to an earlier question, the IPQ that was put forward by the Deputy First Minister on 13 February is still very much the touchstone reference point on the issue. Parliament has that, but we can obviously make sure that if there is anything further like that, we continue to copy it into the Public Audit Committee as well.

Tavish Scott: Thank you.

Nigel Don: I have two questions that I want to put to you. Like other members, I have a constituency interest. My first question is about Forfar academy. I note that it has not reached financial close, but you have already started construction through an advanced works agreement. Can you explain to me in a few sentences, using words of relatively few syllables, what that means?

My second question is about the V&A down the road in Dundee. We have heard many comments about that, mostly via the press. How has that project progressed? Clearly, the numbers have changed significantly and your view on that would be helpful.

Alyson Stafford: I will ask Andrew Watson to deal with the issue of Forfar academy and the V&A. The V&A is a project that is led by others, but I know that Andrew has had some contact with it. He will seek to address both your questions as far as he can.

Andrew Watson: On the question about Forfar academy, the principle around the advanced works is that those involved in the project take as many steps as they can to get the site ready, so that, once we reach financial close, we can make progress as rapidly as possible. That might involve clearing the site, laying down some initial structure and so on, so that the project is match fit when we get to the point of financial close.

The dynamic for the V&A project is different from that for some of the other projects in the scope of the progress report. The Scottish Government is a key funder of the project, but it is not the procuring authority or a project partner in that sense. As the report notes, there has been an increase in the estimated cost for the project. Dundee City Council has put out a fair amount of information on the reasons for that. It has also commissioned John McClelland to produce a review of the situation. His remit covers three areas: the reasons for the increase in cost; whether further steps can be taken to ensure that the project sticks to budget and is delivered on time; and whether there are lessons to be learned about the wider governance and monitoring of capital projects. That is a welcome step.

A key issue is the fact that it is a novel project, with a novel design and there have been some changes to the specification already. That partly explains why there was not a large number of bidders for the contract. When competition for a tender is limited, it can have an impact on price. There has been an element of inflation in the cost estimates, too.

The Scottish Government is engaging closely with the council on the project. It is a key part of our priorities in the culture sector. Through the Scottish Futures Trust, we are working with the council on the growth accelerator model dimension of the funding package. That is in the context of a wider consideration of the Dundee waterfront and greater Dundee area in relation to the prospects for a GAM. Those discussions are going well. The SFT is leading those and we would expect a business case to come before the Scottish Government in due course.

Nigel Don: Dundee is a part of the world that I know quite well, as I was a resident and a councillor there for some time.

Can you give us some clues as to when that independent report is expected to be published? Do you know?

Andrew Watson: I do not know. Dundee City Council would be better placed to answer that question. When the council initiated the review, it did not set a fixed deadline, in order to allow Mr McClelland the scope to take it where he needed to take it. However, there was the suggestion that because of the wide public interest in the project, the process would need to draw to a conclusion relatively quickly. I think that it will be a matter of months, but the council would be better placed to advise you of that.

Stuart McMillan (West Scotland) (SNP): Good morning, panel. My first question relates to the two Caledonian Maritime Assets Ltd ferries. The document that we have suggests that the procurement process will run through April and potentially into May. Can you clarify where we are with that process?

Alyson Stafford: I ask Sharon Fairweather to answer that.

Sharon Fairweather: I am afraid that I cannot. I am just trying to remember. If you give me a few minutes, I will see whether I have information on that in my briefing pack. If so, I will come back to that; if not, we will follow it up.

Stuart McMillan: Okay—thank you.

My second question is on the ESA 10 regulations and the changes last year. What was the genesis of those changes?

Alyson Stafford: To set the context, ESA 10 is a statistical code that requires countries that come under the Eurostat umbrella to have consistency in the way in which they report particular information. That is done through the statistical arms. Actually, ultimately in the hierarchy, it nests in the United Nations—that is where it all starts. Particular geographic teams are then authorised to take the consistently derived transparent information that is used at national and international level as the basis of statistics to be taken forward. Please bear in mind that that is the explanation of a chartered accountant, rather than of the Government's chief statistician, but I hope that the architecture is now at least a little more accessible to you.

As I say, those teams have the motivation to ensure that the information that is prepared can be used for comparisons across international boundaries. They will look at how gross domestic product figures are derived and constructed. They also look at things to do with the level of debt and how it can be measured with a statistical methodology. When we boil that down to Eurostat's interest, particularly for countries that share the common currency of the euro, Eurostat is motivated to ensure that there is a consistent way of assessing the various elements that it takes into account in looking at the economic and financial health of individual countries. That is the very high-level architecture of the process.

If we think about what has been happening locally on strength of currencies, exposure to debt, the banking industry and the extent to which risks have been managed, we can see why further emphasis has come through from the UN and Eurostat on ensuring that there is still a consistent and defined way of measuring and communicating those various elements. Some of the motivation in Eurostat is to ensure that there are consistencies in how public measurement of certain parameters and private measurement of parameters are defined, and to try to mitigate any criticism that countries across the eurozone are putting certain things under different headings so as to show a different position of their financial health and wealth.

That is probably the most accessible way that I can describe what I think are some of the motivations on the matter. ESA 10 has origins in UN-defined requirements that predate it. There was a delay between the UN saying what it wanted to happen and that being captured in the 2010 ESA, which is being implemented and has been a requirement across Europe from September 2014. There is a huge long pipeline of activity. The Treasury uses that particular benchmark to consider how budgeting should take place. That is its choice—how any country chooses to budget on a particular thing is a local administrative choice.

That is the background to the matter.

10:15

Stuart McMillan: That is helpful, because a lot of your comments earlier were at a high level, and what you have just said provides further context for the discussion that we have had this morning, particularly with regard to schools.

Obviously, the change is EU-wide in that the EU has set out the regulations. Are you aware of similar potential delays to building projects arising across the EU? I do not want you to name individual projects, but I assume that this is occurring elsewhere.

Alyson Stafford: We are aware that there is active dialogue with other countries about their schemes and where they sit. We have had an active pipeline in Scotland. During the difficult times that we have had, the Government has chosen to respond to some of the recession in a way that involves stimulating the economy through infrastructure investment. There will be parallels in Europe. Equally, there is a challenge in relation to what is happening with the Eurostat changes. It has its own particular line of sight and activity, which sometimes seems to contradict what Juncker is saying about the pipeline and the drive for further investment. Therefore, there will be lots of motivation for people to resolve these issues. We have them here in Scotland, but they will also exist across Europe. Juncker himself will have a keen interest in ensuring that they are resolved.

Nigel Don: I am just trying to put this all together. Am I right in understanding that, at rock bottom, this is not about how much money you spend but about how much you put in the capital column and how much you put in the revenue column, and that we are delaying projects on the basis that we are not sure where we write the numbers in the cash book afterwards?

The Convener: Before you answer, Ms Stafford, I appreciate that you are trying to be helpful, but it would be good if you could keep your answers as brief as possible. You can send additional information to the committee in writing.

Alyson Stafford: We should follow up some of this in writing, but I can say that the key thing that is happening around ESA 10 concerns whether the projects are being run by an arrangement in the public sector or the private sector. That leads to detailed analyses of issues to do with the governance arrangements and the sharing of risk.

Sharon Fairweather: In answer to the question about the ferries, the tenders were due in at the end of March. I have seen nothing to indicate that that has not happened or that the progress is not on track. Obviously, it will take some time to evaluate those tenders. We can follow up our evidence today with more up-to-date information as the tendering process continues.

Stuart McMillan: That would be helpful, thank you.

The Convener: The report clarifies that private finance remains a significant part of the programme—I think that there are 30 capital projects where private finance continues. What is the difference between the new model and others, such as the private finance initiative or public-private partnerships?

Alyson Stafford: The private finance initiative, PPP, NPD and so on are all variants of the same sort of model, which is about having consortia that can finance and build an asset and, often, maintain it when it is built. The variants that you have described are part of that same arrangement.

The Convener: Can you confirm that the companies that would be involved in a PPP model would still be involved in the model that you have outlined? That is not a political question; I am asking whether, in your experience, there is a significant difference between the projects.

Alyson Stafford: We have found that there has been active engagement with the new models. Some of that will be a result of the nature of the models and the timing—during a recession—of when investment was sought, when people who have wanted to invest have found it attractive to invest in Government programmes of activity—

The Convener: I am not asking about who is engaging. We have the PPP model, which existed before, say, 2007, and we have the current model. What is the difference between them?

Alyson Stafford: The main elements are to do with the level of profit and the extent to which previously there were no constraints in relation to how contracts were competed for. Under the NPD model, an explicit cap around elements of the profits is a more up-front part of the competition and procurement exercise. That ensures that the whole programme is delivered at better value for money for the public purse. Those are the main defining factors.

The Convener: Are the companies that were involved in the PFI/PPP models involved in the NPD model?

Alyson Stafford: Yes.

The Convener: The same companies are involved in the new model.

Alyson Stafford: They have not been deterred by the NPD model, and other companies have come into the market, too.

As I say, we have seen active competition in the vast majority of cases. With the NPD model and with the models that came before it, people see Scotland as a good place to invest in.

The Convener: Companies that, prior to the new model's introduction, enjoyed profits in PFI and PPP projects continue to make the same profits as a result of the NPD model.

Alyson Stafford: Yes. There will be examples of refinancing exercises, which give an opportunity to renegotiate, wherever possible.

The more constrained profit environment under the newer models has not deterred investors that did business in Scotland previously, and it has attracted new investors in.

The Convener: What is the advantage to Government of the current model over the previous model?

Alyson Stafford: Value for money.

The Convener: Can you give me an example?

Alyson Stafford: Sharon Fairweather may have one.

Sharon Fairweather: We need to separate out the two parties that are involved. The funders—the financiers, the banks and the bond providers—will receive their return, as they always have done. The consortia of companies that are delivering the projects—the construction and maintenance companies and the special-purpose vehicles that run the projects—are bidding in the expectation of a certain profit. That was the case under the previous models and it is the case now. The profit is built into their bids, and it is transparent in the bid process.

Previously, with PFI, if excess savings were made on a contract or there were any other circumstances in which those at the SPV level could make more money, the companies kept the excess profit, particularly in the form of dividends towards the end of the project. The NPD model diverts dividends towards the end of the project into the public sector and back into the public purse.

The Convener: I must ask what is pretty much a layman's question. Are private companies still making money out of the public purse?

Sharon Fairweather: They still make a profit on the contracts that they are delivering.

The Convener: Something may be written into the contract that means that some money is paid back to the Government, which is all very well, but the companies have not walked away saying, "There's no money in this, because someone else is making money out of it."

Sharon Fairweather: No. They make a market return on the contracts, but they are not allowed to make excess profits out of the contracts.

Tavish Scott: Alyson Stafford mentioned an "explicit cap". What is the cap?

Alyson Stafford: It depends on the specifics of the contract. I ask Sharon Fairweather to respond, as she has been dealing with the contracts.

Sharon Fairweather: There is no equity funding in the contracts, so no dividend funding comes out. The funding that goes in is on the basis of sub debt, bank debt and bond debt, which goes with a return rate that does not change throughout the contract's life, irrespective how the contract does. Effectively, that is a form of cap, because the return on the investment is based on the coupon of the investment—

Tavish Scott: It is very helpful that you have given that evidence. The explicit cap is not a cap at the beginning. You make a very fair point about the end of the contract and companies not being able to make excess profits by literally walking away, not doing any maintenance and so on.

Sharon Fairweather: Yes. The contracts have substantial clauses to ensure that companies deliver the services that they are required to deliver at the level that they are required to deliver them. They take significant risk in delivering that, and are penalised if they do not deliver.

Depending on the shape of the contract—the contracts all vary between projects—there are opportunities for additional savings to be made. For example, under the Aberdeen contract, those excess surpluses, which is what we call them, come back to the public sector in the form of a reduced unitary charge.

Tavish Scott: That is very helpful.

The Convener: I asked about this earlier, but you did not get a chance to answer. Can you give an example of a contrast between PPP and the current model? Is there a specific project that you can point to?

Sharon Fairweather: The early-stage PFI/PPP projects in Scotland did not come under the NPD model. The Royal infirmary of Edinburgh project was PFI/PPP as opposed NPD, I think.

John Matheson: It might be helpful if we use that as an example and give the committee some figures on it. The interesting point about the Royal infirmary project, which was a PFI project, relates to the site, which is to the south of Edinburgh. A new development—the replacement of the Royal hospital for sick children—is taking place on that site and will be an NPD project. In fact, the identified successful bidder for that NPD project is the company that has just completed the South Glasgow hospitals development, which was done under a traditional public sector model. Your point about companies expressing an interest in various types of models is very much a live one, and the new development that I have just described is a very good example of that.

We can give some richness back to the committee outwith the meeting by comparing the Royal infirmary with the Royal hospital for sick children—

The Convener: Let me be clear about my question. We have the PFI/PPP model versus the current model; just give us one example of where there has been a massive success with the new model. I take it that we will not use the new model unless it saves the public purse substantial sums of money. That is the point that I am making. If there is some proof of that, that would be good evidence for the committee to build on.

John Matheson: I have a quick supplementary point. I want to reassure the committee that we are not being complacent about existing PFI projects. Where possible, we are looking at whether refinancing a project is an option; we are also looking to get efficiency gains out of current contractual positions. The Royal infirmary of Edinburgh has been refinanced, and, working with the Scottish Futures Trust, we are looking at delivering efficiencies from existing PFI projects.

The Convener: Can I get some clarification on that? For the projects that you refer to, have additional contracts been attached to existing contracts? Have we signed an addition to a PFI/PPP contract?

John Matheson: We have not signed an addition, but, for example, for the two major PFI hospital projects in Lanarkshire at Hairmyres and Wishaw, we have just—

The Convener: Would "extension" be the best—

John Matheson: We have extended the facilities management services there. Part of that extension was a reduction in cost of several hundred thousand pounds. There is also an extension in the range of services that are provided under that contract. Again, I am happy to provide further details.

The Convener: You are saying that extensions to current PFI or PPP contracts have been signed. I know of one in my own constituency, some time ago.

John Matheson: The Lanarkshire example arose from a seven-year review that was part of the contract for the soft FM services, so it was not an extension—the tenure of the contract is still the same. However, the review was an opportunity to look at delivering increased value for money from the soft FM services. I am happy to provide further details.

Colin Keir (Edinburgh Western) (SNP): I will take us back to the new Royal infirmary contract. What are the anticipated savings on the old PFI contract? I ask because I know that it came in for some serious criticisms over the years.

John Matheson: The refinancing, which took place eight years ago, released £31 million back into the public purse over the duration of the contract. Those were the savings that were realised from that particular angle.

The Convener: I thank the witnesses for their time. I look forward to following things up in the correspondence exchange that we have committed to.

10:29

Meeting suspended.

10:34

On resuming—

Section 23 Report

"Scotland's colleges 2015"

The Convener: We move to agenda item 3, which is evidence taking from the Auditor General for Scotland on her report, "Scotland's colleges 2015". I welcome Caroline Gardner, the Auditor General; Fraser McKinlay, director of performance audit and best value at Audit Scotland; Susan Lovatt, audit manager; and Martin McLauchlan, senior auditor.

I understand that the Auditor General has a brief opening statement to make.

Caroline Gardner (Auditor General for Scotland): Thank you, convener. As the committee will know, Scotland's colleges are the main providers of further education and they have an important role to play in helping to achieve sustainable economic growth. Colleges have gone through significant reforms in the past few years, and my report comments on those various reforms and how well they have been managed and delivered. It also provides an update on the financial position of the college sector.

Our overall message is that colleges have coped well with the significant demands that have been placed on them as they have managed the complex programme of reform. However, many of the changes are still taking place, and colleges will need to continue to manage them carefully.

We identified gaps in the way in which the Scottish Government and the Scottish Further and Higher Education Funding Council are monitoring and reporting on progress with the reforms.

The reform programme has reduced the number of incorporated colleges from 37 to 20 since 2011-12. Planning for college mergers was generally good and all the merged colleges were established on time. The mergers have contributed to efficiency savings, but the Scottish Government and the Scottish funding council have not specified how they will measure some of the expected wider benefits of the reforms, and they have not gathered reliable information on the overall costs of mergers.

The Office for National Statistics reclassified colleges as public bodies in 2010. That took effect from 1 April 2014, and it has led to greater accountability for the use of public money. Colleges are now required to submit more regular reports to the Scottish funding council on their finances and to seek approval for some items of expenditure. Reclassification has also led to the formation of arm's-length foundations that are intended to protect colleges' financial reserves. Colleges transferred £99 million to those independent foundations in 2013-14.

We found that changes to the college sector so far have had minimal negative impact on students in those colleges. The colleges continue to meet their targets for learning, and they delivered around 76 million hours of learning in 2013-14. Education Scotland has not identified any significant issues with the quality of learning and teaching in the merged colleges that it has reviewed to date. However, because aspects of the changes are still under way, it will be important for colleges, the Government and the funding council to continue to monitor learning and teaching quality, together with learning provision and student satisfaction.

The number of individual students attending college decreased by around 7 per cent between 2011-12 and 2013-14. The Government continues to prioritise younger students, and it has reduced funding for short courses and for courses that do not lead to a recognised qualification. As a result, there has been a reduction of 48 per cent in the number of part-time students and a reduction of 41 per cent in the number of students aged 25 or older since 2008-09.

Colleges' finances continue to be generally sound. Adjusting for the transfers to arm's-length foundations, colleges reported a small overall surplus of £3.8 million in 2013-14. Scottish Government funding fell by 12.3 per cent in real terms between 2011-12 and 2013-14, and college spending reduced over the same period, mainly through reductions in recurring staff costs.

Most of the staff reductions were delivered through voluntary severance. Although most severance was managed in line with good practice, auditors found significant weaknesses in the way in which two colleges managed and approved senior staff severance arrangements, and they found shortcomings in a further four colleges.

My report also draws attention to colleges' relatively short-term financial planning. Although recent changes have made it more challenging for colleges to prepare longer-term plans, it is increasingly important that they now do so to ensure that they effectively consider, plan for and meet the needs of their regions.

We make a number of recommendations in the report for the Scottish Government and the funding council, and for regional bodies and colleges and their boards. In particular, we recommend that the Scottish Government and the funding council should specify how they will measure and publicly report progress in delivering all the benefits that are expected from the reform programme. It is also important that the Scottish Government and the funding council work with colleges to implement planned improvements in the way in which severance is managed in future.

Given the scale of change in the further education sector and the complexity of the new arrangements, we will continue to monitor colleges through the annual audit process and to report back to the committee on the regular cycle. As always, my colleagues and I are happy to answer questions from the committee.

The Convener: Thank you. I open up the session to members. Colin Beattie will ask the first question.

Colin Beattie: Good morning, Auditor General. I am pleased by the comments in the report that, despite the magnitude of the changes, the colleges met their targets for learning and there is no significant effect on pupils. That really is good.

I am a wee bit concerned about what the report says on page 23, starting at paragraph 44, about the transfer of £99 million to arm's-length foundations. We have talked about that before. One has to assume that at least part of that money consists of public funds, which are now going to third parties. Regardless of the fact that the constitutions of those foundations may bind them to a certain purpose, there are no guarantees.

There is a fundamental principle of following the public pound. How do we do so in this case? Can we do that? What has to change to enable that to happen?

Caroline Gardner: You are right, Mr Beattie—that is a complex issue that we have discussed with the committee previously. The reserves that colleges had built up over time came from a combination of sources, including significant public funds, as well as income from commercial activities that colleges undertake. The reclassification of colleges as public bodies meant that a solution needed to be found to ensure that those reserves could be carried forward without reducing the overall spending available to the Government under the Scottish block.

I will ask Fraser McKinlay to pick up on some of the questions about the impact of the change and the future oversight of that money.

Fraser McKinlay (Audit Scotland): As the committee knows, we have been looking at arm's-length external organisations for a good number of years now, not so much in the college sector but in local government in particular, and we have had conversations about them with this committee and with the Local Government and Regeneration Committee.

The arm's-length foundations are, in effect, among those bodies, and the principle of following the public pound is absolutely key. What we can do—in this case on behalf of the Auditor General, and in the case of local government on behalf of the Accounts Commission—is ensure that the controls are in place to make sure that the flow of money between the two organisations is well controlled.

We audit the colleges, so we will be able to keep track of the money that they are taking out of the arm's-length foundations and what it is being used for, and the controls around that process.

It is early days, but anecdotally we know of a couple of instances. We had a meeting with the FE sector auditors only last week, and there is some evidence coming through that the arm's-length foundations are providing money to organisations that are not colleges but schools. We have not yet picked up any evidence of money going outside the education sector—that is where the articles of association are really important, as they define quite tightly what the funding can be used for. The committee should rest assured that, as those arrangements develop and mature, we will be keeping a very close eye on them.

There is an interesting tension in the system between our interest and the committee's interest in ensuring that public money is well spent and well monitored and controlled, and the need to recognise the fact that those arm's-length foundations are independent charities with independent trustees and that they therefore need to operate independently. They are regulated by the Office of the Scottish Charity Regulator, which has an interest in ensuring that the ALFs—if I can call them that—are operating independently of colleges or anyone else. We have experience of working through that sort of tension in the council sector in particular, and we will continue to keep a very close eye on the situation.

Colin Beattie: Are you satisfied that the measures that you are taking to audit the flow of that money will ensure that you satisfactorily capture all transactions and that you will be able to follow the public pound?

Fraser McKinlay: Yes, I am satisfied of that. That is not to say that we can give you a cast-iron guarantee that the process will be perfect 100 per cent of the time, because that is not what we do as auditors, but we are very alert to the very new development in the landscape that we are seeing. As I said, auditors will be keeping a very close eye on the issue.

Colin Beattie: Paragraph 7 of the report mentions that four colleges

"fell short of good practice"

in making severance payments. How serious was that?

Caroline Gardner: That reference takes us back to pages 38 and 39, where we discuss in more detail the severance arrangements that were made.

Overall, we found that two of the colleges had some quite significant shortcomings. Indeed, there is another section 22 report waiting to be laid in Parliament on which I expect to brief the committee relatively soon. The other instances that auditors identified were less serious but still fell short of good practice.

As with your previous question about arm's-length foundations, we have talked about the issue of severance payments in the college sector and in other settings a number of times with the committee. It is disappointing that an issue that is of such significant public concern is still causing problems. The bright point in the report that I can bring to you today is that the funding council has now worked hard to strengthen its guidance on the oversight of that. We hope that those instances are the tail end of past poor practice. I share the committee's concern about them.

10:45

Colin Beattie: That issue leads back to paragraph 21, which says:

> "The SFC also provided over £52 million between 2011-12 and 2013-14 to support college mergers. It plans to provide a further £6 million in 2014-15".

The indication is that most of that went on severance payments. Was that money well spent? Have the benefits been properly measured? It seems that an awful lot of money was provided simply to pay people off. How many of the people who were given severance payments were senior staff—principals and so on—in the colleges?

Caroline Gardner: I will ask my colleagues to come in with more detail in a moment. It is worth saying initially that, because one of the reform programme's objectives was to generate efficiency savings by cutting out duplication, we were not surprised that significant numbers of severance packages were agreed and that money was required to support that.

Across the public sector, a key way of responding to reducing finances is to make short-term payments that release bodies from long-term employment obligations. We are not surprised by that. It is important that that public money is spent properly, that it is well governed and that payments are made and managed transparently.

I ask colleagues to pick up on the detail of the split between senior and junior staff and the things that we have seen working well and less well.

Fraser McKinlay: Do we have that information, team?

Martin McLauchlan (Audit Scotland): We do not have in front of us the numbers of senior staff involved, but I am sure that we will be able to provide something on that. We have received some information from the local auditors and from the audited accounts.

As the Auditor General pointed out, given the duplication in the sector, which was going through a merger process, and given that around 60 per cent of college expenditure goes on staffing, such payments are the most obvious way to make long-term, recurring savings. That is why the process was financed in that way.

Fraser McKinlay: We will come back with more detail about the principals and senior staff, Mr Beattie.

Colin Beattie: That is good, because one of the points that have come out is that the SFC does not really have powers to enforce good practice on severance payments. All that it can do is penalise the college by recovering funds, which of course penalises the students, not the people who benefited from whatever process was misused.

Caroline Gardner: We looked at that closely as part of the report, because of the concerns that the committee has aired before. The Scottish funding council's revised guidance is clearer about what is required and links well to our guidance on managing severance. However, you are right that unless there is illegality—in most cases, there is not—limited sanctions are available.

The situation is made more complicated for the reform programme because, in most cases, the colleges that made the arrangements no longer exist as legal entities—they have been merged into new organisations with new leadership that has formal accountability but was not part of the decision-making process. As you rightly said, the penalties that can be levied would penalise the new colleges and the students who rely on them for learning support.

It is fair to say that the funding council recognises those difficulties. That highlights the premium that should be placed on ensuring that the guidance is absolutely clear and that oversight of that part of any merger process is done properly in real time, rather than by auditors coming along afterwards and identifying through the audit process where things have gone wrong.

Stuart McMillan: I have a point for clarification. Is the Scottish Colleges Foundation set up in a similar manner to an ALEO? I know that Fraser McKinlay will be aware of that because he mentioned it in the Local Government and Regeneration Committee.

The Convener: Can we clarify the acronym ALEO?

Fraser McKinlay: ALEOs are arm's-length external organisations.

The Convener: You do not need to say that again—it is just for clarity.

Fraser McKinlay: I understand that the arm's-length foundations are all charitable organisations. In that sense, the position is a bit different from that in the council and local government sector, where ALEOs are a range of organisations. Page 23 of the report states that the arm's-length foundations in the college sector are charitable organisations.

Stuart McMillan referred to the national umbrella foundation that has been set up, and several foundations have been set up locally and regionally. In that sense, the bodies are similar, and we understand that the articles of association are similar, in that they define quite tightly what the money should be used for.

Mary Scanlon: My question is on the same point. As you know, the committee and particularly the previous convener asked a lot of questions about ALEOs, so I felt quite assured about what was happening in relation to the ALFs, the articles of association and so on. However, when I read the report—particularly paragraph 47—I began to get quite concerned, as the paragraph states:

"There is no guarantee that these funds will be returned to the college sector as this would raise concerns about the independence of the foundations."

As has been mentioned, the report says that

"Other organisations such as schools, voluntary sector organisations or private sector educational providers can also apply for funding held by these foundations."

Under the recommendations of the Wood commission in its "Developing Scotland's Young Workforce" report, some modern apprenticeships may be done through colleges or through the school sector, but there is nothing to stop voluntary sector or private sector providers saying, "We will train X number of apprentices every year." It is fine if the ALFs decide to give them money to do that—the main thing is that people are being trained. However, we lose sight of the trail of the public pound if that happens because, after money goes out to a voluntary sector organisation or a private provider, it is none of our business.

Colin Beattie made a point about the audit of the public pound. It appears that, once the public pound has been allocated to the voluntary sector or the private sector, we do not have such an audit. Am I correct?

Caroline Gardner: The sums that are transferred to the ALFs can be used only in accordance with the articles—the objectives—of those foundations. I do not audit the foundations; they are audited by auditors who are appointed under the framework set up by the Office of the Scottish Charity Regulator and they are regulated by the regulator in the same way.

You are right—the process is less transparent. We can look at the money that is transferred into the funds by the colleges and the money that is transferred back to the colleges by the trustees. One of the OSCR requirements is that the trustees are independent of anybody who might benefit. That is just one of the corollaries that are there.

As we have discussed in the past, that process has implications for transparency, and we are aware of it in sectors other than further education. I am not sure that there is an answer; that is an unavoidable consequence of the bodies being foundations.

Mary Scanlon: I understand that you can audit the flow of money between the colleges and the ALFs both ways. In your response to Colin Beattie, you said that you would always have an audit of the public pound, but the truth is that when money goes from an ALF to other organisations—even schools and voluntary sector and private sector providers—there is no longer an audit of the public pound. Is that correct?

Caroline Gardner: You are absolutely right. Such bodies are audited outside the usual public sector framework and there is less transparency about what comes back to the committee.

Mary Scanlon: I am also concerned about measuring the expected wider benefits. I think that every parliamentarian here voted for and supported the college mergers, which we thought were a good idea. You said that there have been some savings. In the report, you mentioned a funding reduction of 12 per cent, but in your previous report—two years ago, I think—you mentioned a funding cut of 24 per cent, so we have a 12 per cent cut on top of a 24 per cent cut, which is serious.

You did not mention the number of students. In a previous report, you mentioned that there were 140,000 fewer students, but we do not have an update on how many more student places have been cut, although we have a reduction of 48 per cent in part-time students and of 41 per cent in students who are over 25.

One of the outcomes that were set for the college mergers was to widen access to people from more deprived backgrounds to address the inequalities gap. If someone is over 25 or has other commitments—family, for instance—and wants to do a part-time course, access seems to be more difficult. They might be the people who most need training and further education. Has it become more difficult for over-25s and part-time students to get into further education? Will achieving that outcome be more difficult?

Caroline Gardner: There is an awful lot in that question. I will have a first bash, and colleagues might want to add some detail.

You are right about the direction of Government policy for FE colleges. It is appropriate for any Government to set its priorities, and the current Government has decided to focus on learners aged 16 to 25 and courses that lead to a recognised qualification. That has led to a reduction in the number of students who are over 25 and the number of part-time students.

In relation to the first couple of elements of your question, you might be interested in exhibit 5, which shows the trend in the make-up of students attending Scotland's colleges over the past seven years, broken down between full-time students and part-time students. It shows a marked drop in part-time students, in line with the policy.

Mary Scanlon: I think that the drop is of 150,000. That relates only to part-time students. I wanted an update because, in the Parliament, we have used the figure of 130,000 to 140,000, but I saw in the exhibit that the drop is 150,000 in part-time students alone. I am also interested in the over-25s, because their number has had a 41 per cent cut.

Caroline Gardner: I ask colleagues whether we can lay our fingers now on the number of students broken down by age. If not, we can certainly let you have that separately.

Exhibit 7 shows the trend in funding over a longer period—the eight years going back to 2008-09. As you said, we previously reported a significant drop between 2010-11 and 2011-12, when the overall financial reductions came through.

Our bigger point is that the reform programme was the Government's stated response to its policy objectives and the fact that funding remains tight for public services. Although it is clear that the mergers have contributed to efficiency savings, the Government has not set out clearly enough how it will measure the expected benefits of mergers, in line with our mergers report, which is going back a number of years.

For some areas, good baseline information is not available. That is important for committee members and the Parliament as a whole to satisfy themselves that the objectives of reform are being delivered and that there are no unintended consequences for other student groups.

Fraser McKinlay: In paragraph 54, we talk about the number of people—the headcount—which might help a bit. We say:

"In 2013-14, about 238,000 people ... attended college",

which was just under 20,000 fewer than in 2011-12, and that is 36 per cent lower than in 2008-09. That paragraph gives the overall number of people attending colleges, and exhibit 5 and the paragraphs following it break that down by age group a bit.

Mary Scanlon: My final point is sort of included in the report. I am not sure whether it is entirely appropriate, but I am sure that the convener will advise me. It was covered in this week's *Times Educational Supplement* and in the local media. I have raised the concern before—it is about the cost of the regional boards.

Quite a bit has been said recently about the Glasgow Colleges Regional Board, but my concern is mainly that the money that has been allocated to the University of the Highlands and Islands Further Education Regional Board has been taken from front-line education in colleges. Will you give us an update? Generally, do you have any concerns about the governance of the regional boards and their cost? I am aware that that takes money from the front line, or the chalkface.

11:00

Caroline Gardner: On page 20, we say clearly that the new governance arrangements are complex. It is too early for us to be able to say whether they are working, whether they are having the intended benefits or whether the concerns that colleges and others have expressed about the clarity of roles have substance.

We will audit the regional arrangements as part of the audit of FE in the future. The Glasgow Colleges Regional Board has not yet been required to produce a full set of accounts that we have audited, but that will be our way in. It will do so, and we will audit those accounts. We will look across Scotland at how the new arrangements are working, as part of the wider scope of audit that we do. All that I can do is assure you that we recognise some of the tensions and that we will look at the issues as part of our audit work and report back to the committee if that seems appropriate.

Mary Scanlon: What is the timescale for that work? Will it be done this year?

Caroline Gardner: It will be done on the back of the latest set of audited accounts. I am afraid that I have lost track of what that actually means, because there have been so many changes to them. However, that will be within the next 12 months, to keep the cycle going.

Tavish Scott: I am not surprised that you have lost track. You said in your opening remarks that there is no reliable information on the cost of the mergers. Is that so?

Caroline Gardner: We do not think that there is good enough information on the cost of the mergers. The Government and the funding council know what was made available to colleges for central funding, and that is set out in the report. There will have been other costs that were not captured well enough. Equally, the baseline for some of the changes is not available in the way that we would expect it to be.

Tavish Scott: When will we have that information, or will we ever have it? I suppose that the better question is: is that auditable?

Caroline Gardner: That is a good question. As we say in the report, the funding council plans continuing evaluations, and it expects some of the information that we have been looking for to come through that process. That is welcome and we will look at how well it works.

However, we are conscious from a range of work that we have done that, in some cases, it can be hard to go back and put in place information if it was not collected at the time. A number of things can change, including the broader funding allocation changes that would have happened in any case. It can be hard to go back and set the counterfactual of what the number might have been had everything else not changed.

Tavish Scott: The quid pro quo is that an assertion was made about savings to be made, which cannot be proved.

Caroline Gardner: At this stage, the funding council and the Government could not give us the information that we asked for to demonstrate the costs of the merger process.

Tavish Scott: À la Mary Scanlon's question, do we have any notion of when the committee might be allowed to understand what the numbers might be?

Caroline Gardner: I ask Susan Lovatt to talk you through the plans for evaluation, what we think we will have and what our concerns are.

Susan Lovatt (Audit Scotland): As part of the merger process, the funding council agreed to undertake two post-merger evaluations for each merger college—one at six months and one at two years post-merger. As part of the fuller assessment—the two-year post-merger evaluation—the funding council will focus on the costs and efficiency savings that the colleges have identified. At this point, we do not have that detailed information, but the funding council has highlighted that it will address that theme as part of the two-year evaluation.

Tavish Scott: I am sure that that is true, but your report says:

"The Scottish Government identified that mergers would deliver £50 million of efficiency savings each year from 2015-16".

Where is the evidence for that?

Caroline Gardner: At this stage, we do not have it. That is why we recommended on page 6 that the Scottish Government should publish that information.

Tavish Scott: It strikes me that this is like the situation with the police. The Government has made an assertion about how much will be saved, but the Auditor General has told us that she has not been able to find that assertion to be correct.

Caroline Gardner: We do not have the information at this stage. Susan Lovatt outlined what we have been told are the plans for collecting it. As you know, the issue goes way back to our original report on managing mergers, in which we said that clarity about the expected costs and benefits is important to underpin the rationale for making the changes.

Tavish Scott: It would be fair to assume as a parliamentarian that, when a Government says that it will make £50 million of savings, it has a pretty decent reason for having come up with that figure—otherwise it might have been £20 million, £30 million or £140 million. As you say in your report, it made a clear statement about £50 million. Did you find any evidence in your audit of the Government of how it came up with the figure of £50 million?

Caroline Gardner: We have looked for evidence of the savings that the process has generated and have not found that. That is a question for the Government rather than for us.

Tavish Scott: I apologise; I am sure that that is entirely true.

Paragraph 29, which is on the whole area that you have very fairly described, describes a change in the target or the scale of savings expected—I do not know what you would call it. The paragraph says that the letter from the Cabinet Secretary for Education and Lifelong Learning

"was superseded by revised guidance in March 2013".

Were you able to understand why the Government changed its guidance? That must have been genuinely difficult for everyone involved.

Caroline Gardner: Our understanding is that that was to prevent unintended consequences to individual colleges in being asked to make very significant savings. It was not about the overall quantum; it was about the spread of savings across colleges. Again, you may want to explore that with the Government.

Tavish Scott: Did you discover whether, when that guidance changed, it made a material difference to the potential savings that could be accrued through the whole merger process?

Susan Lovatt: No, it did not. The figure of an expected £50 million of savings through the merger process remained.

Tavish Scott: But that would be a reasonable question to prosecute.

Drew Smith (Glasgow) (Lab): I think that Colin Beattie started on this area, but I want to take you back to your conclusion that

"The changes to date have had no significant detrimental effects on students".

Will you talk us through how you came to that conclusion? What did you look at that allowed you to arrive at that conclusion?

Caroline Gardner: I will ask Susan Lovatt to speak in a moment.

It is clearly important to put the matter in context. The changes are still very much under way, and the curriculum reviews in particular are still in process. We know that the focus can be only on the students who are in further education, not on those who have not been able to access it because of changing priorities.

Susan Lovatt can talk members through the material in the paragraphs from paragraph 48 onwards on the evidence that is available and why we drew that conclusion.

Susan Lovatt: As part of our audit fieldwork, we requested information from the fieldwork colleges. We requested surveys that they had done with students to identify any issues that arose through the merger process. The Scottish funding council had carried out all its six-month post-merger evaluations. As part of that process, it had met a range of students to gather views. We also reviewed the reports from Education Scotland, which was also involved with discussing with students their expectations and experience of the merger process. From gathering all that information together and analysing it all, we reached the conclusion that there had been no significant detrimental effects on students.

As part of our discussions with the merger colleges, significant emphasis was certainly placed on maintaining business as usual for students. Their ultimate priority was to minimise any negative effect and ensure that learning provision was maintained throughout the merger process.

Drew Smith: That is helpful.

I presume that you have seen the comments that Larry Flanagan from the Educational Institute of Scotland made in response to the report. He said that that conclusion is "simply wrong". To find some common ground between Audit Scotland and the EIS, I take it from what you have said that your assessment was very much about current students at college and that a lot of the debate and commentary on what has happened in our colleges relates to the figures that Mary Scanlon asked about: on the thousands of kids who are not at college, the places that are not available and the courses that are no longer taught as a result of the changes. You did not comment on that impact in your report. Is that correct?

Caroline Gardner: That may be part of the difference that has been expressed. I will ask Fraser McKinlay to say a bit more about that in a moment.

As Susan Lovatt has outlined, we looked at all the evidence that was available from the surveys of the four merger colleges that we looked at in detail, the SFC work and the Education Scotland inspections that have taken place. All that evidence tells us that there has been no detriment for the students who were consulted. That has been an objective of the colleges to maintain.

We know that there are students who, because of the policy priorities that are in place, are not in education in colleges when previously they might have been. We have not looked at their views at this stage—that is a bigger question.

There is also the important caveat that significant things such as the curriculum reviews may lead to changes in future in what teaching takes place and where it is delivered. It is too soon to know what those changes might look like or what the effect would be.

Fraser, do want to add anything to that?

Fraser McKinlay: I can do so briefly, in terms of our work.

We are reviewing how we go about doing this and our other overview reports. We do reports on the national health service for the Auditor General and on local government for the Accounts Commission. The report is, by definition, an overview report of the sector. However, given the substantial issues that are raised in the report, we are looking at what else we might do in a bit more detail in the next period.

As part of that exercise, we would of course be delighted to speak to the EIS and other unions, as we do for other, more specific work. They were very closely involved in the education report that we did last year, for example. We have seen the EIS's comments, and we are more than happy to engage with it and others as we take the report forward and think about what issues we might want to take a closer look at in the future.

Drew Smith: Clearly, there are points in some of the comments that the EIS has made that support the report's conclusions and there are areas of common ground between the EIS's conclusions about what is happening in the sector and your conclusions based on the report. However, given that the report is an overview of the sector, do you think that you could have done more to engage with the EIS in the report's production?

Fraser McKinlay: I am absolutely happy to reflect on that. As I said, because of the nature of the report, we have tended to use evidence that is generated by others, so our starting point was to see what evidence there is from colleges, Education Scotland and others. However, as I said, I am very happy to reflect on how we do that in future.

Drew Smith: That takes me to my final point. Beyond the criticisms about what has happened to the students who are no longer in colleges, there is the criticism that the report is driven from a management perspective. That is borne out slightly by the fact that the information that you base your conclusions on is provided as a result of the administration or the management of the college system.

I suppose that this point goes back to the earlier point about redundancies. I think that you said that you would give us a bit more information about who has left the sector. Do you have a view about what balance you would expect to see? Clearly, the EIS as a professional body would be concerned about head count in terms of its members, which is understandable. Would you have expected to see the balance that is there in terms of senior managers leaving colleges as a result of mergers? At the heart of the argument for mergers was that having the same senior posts is duplication but that having people in lecture rooms, classrooms and workshops teaching is not duplication because that is the purpose of the service. Is what we are seeing what should be happening? Do you have information on that, or could we be provided with it?

Caroline Gardner: I have a couple of observations. First, you are right in that we used evidence from a range of sources, but I would not want the committee to be under any illusion that we are not professionally sceptical about that evidence. It is our job to look at all the evidence that we receive: we look at what confirms it and what might counter it, and we ensure that the picture as a whole is consistent. If it is not, we go and look for more evidence. We are not uncritical in any circumstances of what is provided to us by colleges, by the funding council and by the Government.

On the question of who we might expect to be leaving the college sector as a result of the reforms, you are right that we would expect there to be a reduction in the management teams. For example, if three colleges are merging, they do not need three principals and three times as many assistant principals as they might have had. That is why some of the focus where a merger has not been managed well is very much at the level of the most senior people.

Equally, as the merger process continues and the new colleges and their boards are looking at what learning is required in their local region and how it can best be delivered to meet the needs of employers and learners, we would expect to see some changes quite unevenly distributed among both the teaching staff and the support staff of the colleges. It is that picture that we have not been able to give you in detail today.

We will have a look at what is available and come back to you on that issue. However, for people other than those in management teams, I would expect the position to be quite variable because it should properly be based on an assessment of needs and what has been inherited by the new colleges.

Fraser McKinlay: We can help the committee with a bit of detail through exhibit 12 on page 37 of the report. The table does not show specifically who has gone through voluntary redundancy or severance schemes, but it gives us some picture of the shift in staffing across groups. The table shows that the teaching staff reduction variance as a percentage is about 9 per cent, and that the biggest chunks are in "Other support services" and "Other income-generating activity".

There is a mix, but it is difficult for us to say whether it is the right or the wrong mix. Obviously, within each of those groups, there will be lots of very interested parties, not least the trade unions for the different groups of staff, who will be concerned about the mix.

A big part of our job going forward will be to continue to monitor the impact, as this is all pretty new. Although, as Caroline Gardner says, we are not seeing lots of strong evidence of detriment, we will keep a close eye on the situation as the merger processes bed down.

11:15

Drew Smith: Would you say, on the basis of what you have looked at, that, as a result of the programme, Scotland's colleges have a flatter management structure than before? Has the proportion of the budget that is spent on managing our colleges, as opposed to teaching people, decreased?

Caroline Gardner: There are fewer managers in Scotland's colleges, but because colleges are still looking at their staffing structures we do not yet know whether they are flatter across the piece. As Susan Lovatt said, the focus has been on continuing to deliver teaching to learners during the early stages of the process.

We will keep the matter under review as we continue our work in the sector, and we will bear the points that you raise in mind when we pull all the information together for the next stage. At this stage, however, the reform programme is still in process, as we say clearly in the report, and we do not have a settled idea of what the management structures look like or the proportion of the budget that is spent on senior staff relative to what is spent on teaching staff.

The Convener: Your comment about the changes having had

"no ... detrimental effect on students"

is a pretty significant statement. The whole purpose of the reform programme is to improve the student experience, but those who are no longer on part-time courses because of the emphasis of the programme have not been consulted.

If somebody carries out a survey at a college, that misses a significant body of people who should have been at the college and who, if they had been consulted before they had left, might have said that the changes had had a significant impact on them. Your statement is a significant one, given that a body of people is missing from the process.

I understand the ways in which we go about assessing these things, but it is probably not the most objective way to collate opinion to ask the Government body that has a significant role in the process whether it thinks that it has been pretty good. Is there not something to be said for taking a more objective approach?

Caroline Gardner: Those are two different questions, convener.

The question that we have looked at is for the students who are being served by Scotland's colleges, and it asks how their experience has been affected by the reform programme. We have not just asked the colleges whether they think that the programme has had an impact; we have looked at the student satisfaction surveys, the SFC evaluations and the inspections that have been carried out by Education Scotland. We have pulled all that information together to arrive at our careful conclusion in the report that, to date, there is no evidence that there has been a detriment to students' experience. That is not as positive as saying that the position has improved—we will look for that improvement in the future—nor is it saying that there has not been a detriment; we are just saying that there is no evidence of that.

You are right, however, to say that there is a bigger question about—

The Convener: To be fair, though, should the audit team not have said, "Wait a minute—there are all these students who are no longer on the campus but who have been affected by the merger"? Somebody on the team that carried out the work should have said that. I can see that straight away, and I am not an auditor.

Somebody could have said, "Why not ask those students who have been affected by this?" To be fair, the students might have said that the changes had allowed them to move on to a full-time course. However, they have not been part of the consultation process, so how can we say so strongly that the programme has not had any detrimental effect? I take on board the point that you are making, but it is still a strong statement to say that it has had no detrimental effect on students.

Caroline Gardner: I agree with you. That is a separate question—and an important one. We have looked at the students who are still being served by colleges, and that is the conclusion that we have come to. However, it is entirely appropriate to ask about the students who were in part-time further education before and about older students who had access to courses. That is something that the Government—

The Convener: People at college are probably happy about it because they are still there. It is the ones who are not there who have had to move on.

Caroline Gardner: I genuinely think that there are two separate questions. It is quite possible that there could have been a negative impact on the experience of students who are in colleges from all of the things that are involved in reform, ranging from college management having their eye off the ball to disgruntled staff—from all of the things that could have affected them. From the evidence that we have, there is no evidence that that has happened.

I entirely agree that there is a separate question about the effects on the part-time or older students people who might have been in further education previously but who, because of the Government's policies, are not. That is not something that we as auditors can look at, though—it is something that you might wish to explore with the Government and the Scottish funding council to see what they know about the impact of that policy decision and to establish how else those people might have their particular learning needs met in the context of the Wood review and the focus on younger people's skills.

Nigel Don: Good morning, Auditor General. I take you to paragraphs 79 to 81 of the report, on pensions. Clearly, there is a general issue around public sector pensions, and there is the imponderability of future returns. Therefore, actuaries will keep going on a cyclical basis, giving us different numbers and values relating to how underfunded or overfunded we are.

My question is in the context in which this report on our colleges has been written. Is there anything significantly different between what you were considering on colleges and the general problem of public sector pensions, to which we will presumably return another day?

Caroline Gardner: I would say not—colleagues might wish to add something in a moment.

What we are seeing here is a significant pension liability, which needs to be managed over the long term. The staff tend to be members of either the teachers superannuation scheme or the local government pension scheme. One is unfunded and one is funded, so they throw up slightly different questions, but both of them have been through the process of negotiated changes over the past few years, which were intended to make those liabilities more manageable. We will be looking at the effect that they have.

The difference is that colleges tend to be small bodies, so the impact of changes on their balance sheets from one year to another—in assumptions, in discount rates and in life expectancies—can look like particularly large numbers in this context. However, that is not a different issue for colleges compared with public bodies across the piece.

Nigel Don: That is helpful.

The Convener: The report mentions that staff numbers have decreased across the estates by nearly 10 per cent over the past three to four financial years. It says that those reductions were met "mainly through voluntary severances." Are there a number of reductions that were not managed through voluntary severance arrangements?

Caroline Gardner: Martin McLauchlan may be able to add a bit of detail on this but, in most mergers, we would expect people to take other opportunities, too. For example, if somebody resigns to go to another job, that post will not be filled so as to help towards the process.

Martin McLauchlan: As has just been outlined, there is natural wastage—people will be resigning and retiring who might not be replaced. That is why we cannot say that 100 per cent of the reductions are due to voluntary severance. There will always be an actual turnover of staff.

The Convener: Have there been any compulsory redundancies?

Martin McLauchlan: As far as I am aware, no.

Caroline Gardner: No.

The Convener: It is Government policy not to have compulsory redundancies. I asked just for clarity in relation to that paragraph of the report.

I thank the Auditor General for her evidence.

11:23

Meeting suspended.

11:24

On resuming—

Section 22 Report

"The 2013/14 audit of the Scottish Government Consolidated Accounts: Common Agricultural Policy Futures programme"

The Convener: Agenda item 4 is to consider the Auditor General for Scotland's section 22 report "The 2013/14 audit of the Scottish Government Consolidated Accounts: Common Agricultural Policy Futures programme". Do members have any comments?

Tavish Scott: I have three points to ask about. A new information technology system will, from this year onwards, make payments to Scotland's farmers, crofters and land users under the new common agricultural policy. The Auditor General says in her letter to the convener, which is at annex C of paper PA/S4/15/8/7:

> "The programme will continue to carry significant risk right up until implementation and beyond."

That is exactly what the people who are trying to work with the programme are finding. The letter says that the business case costs have increased from £102.5 million to £178 million, which is a 74 per cent increase. Paragraph 9 says that

> "The largest area of spend is on the IT delivery partner."

I assume that "delivery partner" refers to an IT company. The costs there have gone up from £28.8 million to £60.4 million, which is a 111 per cent increase. By any standards, those are vast increases.

We have been here before on IT projects. We must find out the reasons for the increases, including from the EU. It is very comfortable to blame the EU, believe me—I have done so plenty of times in my life, too. I hope, convener, that we would want to ask a lot of questions of the project's accountable officer, the EU and the stakeholders who know an awful lot about what is going on here.

Paragraph 11 of the letter is, for me, the most worrying one. At the end, it says that

> "there has been less progress on ... key parts of the process".

That will affect those who must use the process and the IT system. That is extremely worrying. We must ask stakeholders about that.

The system depends on individual crofters and farmers having broadband, because the applications need to be completed online—they can also be completed on paper, which I welcome. Those who use the system are being encouraged to do so online, but if they do not have access to broadband, they cannot. There is an overlap on that issue to reports that the Auditor General has brought before us on superfast broadband.

There are significant issues. In practical terms, the process used to take an individual an hour to do; now, it is taking them at least three hours. It has a massive implication for individuals.

I hope that the committee will agree to look closely at the issue not only from an audit point of view because of the sheer increase in costs, but from a human point of view, because it is affecting the day-to-day lives of people who are running businesses right across Scotland. It is not going well. I ask that we give the matter some consideration.

Mary Scanlon: I was hoping that the update would be very positive, but it raises more concerns. Paragraph 16 says:

> "The programme will continue to carry significant risk",

which is the point that Tavish Scott raised.

My concern is paragraph 5. It says that, at this stage, 435 single applications forms have been submitted, which compares with the 1,914 forms that had been submitted by this stage last year. We are significantly behind.

My main concern is that

> "The EC requires payments to be made to farmers by June 2016, but in Scotland payments are normally made in the preceding December"—

in other words, December this year—

> "and this is the timetable the Scottish Government is working to."

The letter then says that the Government

> "has been considering contingency plans ... That work has shown that the software package would be a viable short-term contingency ... , but would not be capable of meeting the December target ... for payments."

As Tavish Scott mentioned, farmers and crofters across the country will be seriously concerned about bank loans and cash-flow issues, because the funding that they normally get in December may not arrive until June the following year.

I am very concerned about the impact on farm payments. I am afraid that the update has not brought the assurance that I had hoped for. When the Auditor General says that there is "significant risk", farmers and crofters across Scotland should be seriously worried.

11:30

Colin Beattie: The thing that I find most disturbing is that in a single committee meeting we have dealt with two issues from the EU that are adding a cost burden to this Government and to the taxpayer.

Because of the delays, there are increased costs in the CAP futures programme due to the need to deliver the IT solution in a compressed timescale, as the Auditor General highlights, and due to changes in the European Commission's requirements. I want to know whether its requirements are fully described and whether we fully understand where we are with them. They have been so late and they come out in dribs and drabs. Are we at the end? Will we be faced with last-minute changes or can we say that we have a proper definition?

There is no doubt that the programme carries risks. The Government is absolutely right to target December—that must be the date for payments. There are concerns about the programme, and the committee needs to highlight them.

The Convener: We have two options. The first is to note the update, which is not what colleagues seem to be keen to do. The other option is to consider taking oral evidence from the Scottish Government. Is that members' preferred approach?

Colin Beattie: I think that we should do that.

Tavish Scott: I very strongly agree with Colin Beattie's point. As he will remember, the EU regularly qualifies its accounts in respect of agricultural payments. It would be quite nice to have the EU auditor in here, to audit him—or her: I apologise—on their performance, too.

The Convener: Are we asking for an EU representative—

Tavish Scott: I will leave that to your good judgment, convener.

Colin Beattie: I think that we should.

The Convener: We will invite two witnesses: someone from the Scottish Government, and an appropriate representative from the EU to whom we can put the matter. Do members agree?

Members indicated agreement.

The Convener: Thank you, colleagues. We move to item 5, which, as we agreed, will be taken in private.

11:31

Meeting continued in private until 12:10.

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