

Public Audit Committee
Wednesday, 21 May 2025
16th Meeting, 2025 (Session 6)

Scottish Government's approach to financial interventions: Strategic Commercial Assets Division

Purpose

1. The Committee will take evidence today from the Director-General Economy on the operation of the Scottish Government's Strategic Commercial Assets Division (SCAD).
2. The Committee previously took evidence from SCAD [at its meeting on 30 May 2024](#).

Background

3. [At its meeting on 7 November 2024](#), the Committee began its scrutiny of the Auditor General for Scotland's (AGS) section 22 report, [The 2023/24 audit of the Scottish Government Consolidated Accounts](#) by taking evidence from the AGS. The section 22 report was published on 10 October 2024 and can be found at **Annexe A**.
4. Following this session, the Committee took evidence from the Permanent Secretary to the Scottish Government [on 22 January 2025](#) where the Committee explored the work of SCAD in further detail.
5. The section 22 report details that financial interventions are managed by the SCAD which has five units covering initial assessment through to potential exit strategy. SCAD was formed during 2022/23 "to consolidate expertise and knowledge and increase capacity to respond to cases that arise seeking support or intervention from the Scottish Government and provide support across the whole lifecycle".
6. The report states that SCAD has developed a range of guidance covering areas such as restructuring and insolvency and due diligence checklists. Exhibit 2 of the report also outlines the financial support that has been made to private companies that are being managed by SCAD and that these financial interventions will continue to be monitored and reported on by the audit team.

Transparency review

7. In its report, *New vessels for the Clyde and Hebrides: Arrangements to deliver vessels 801 and 802* (published March 2023), the Committee concluded that there should be equivalence between occasions of Written Authority and where the board of a company wholly owned by Scottish Ministers consider it necessary to seek and receive Shareholder Authorisation. As such, the Committee is firmly of the view that all occasions of Shareholder Authorisation should be a matter of public record.
8. The Committee has sought to establish the Scottish Government's position on this matter on a number of occasions, most recently with the Deputy First Minister in June 2024. The Deputy First Minister's response to the Committee's letter referred to an initiative underway to develop a review of proactive publications across the Scottish Government's portfolio of commercial assets. The Deputy First Minister stated that this "transparency review will touch on shareholder authorisations" and that findings would be shared once concluded.
9. On 27 September 2024, [the Committee wrote to the Director General Economy](#) seeking an update on the progress of the transparency review, including when it expected its findings to be published. The Committee also asked whether the review would provide clarity as to the Scottish Government's position on whether it will publish details of all Shareholder Authorisations in the future.
10. [On 25 October 2024, the Committee received correspondence](#) from the Director General, Scottish Government advising that its approach to transparency regarding the Scottish Government's portfolio of commercial assets managed by SCAD was underway.
11. On 17 January 2025, the Committee [received correspondence from the Director-General Economy, Scottish Government](#) advising that an information pack containing six due diligence reports preceding the decision to continue public investment in construction of MV Glen Rosa at Ferguson Marine would be provided to the Committee by 7 February 2025. The Scottish Government stated that "sharing this initial output of the transparency review will complete our response to the Committee's request for a public record covering the written authority".
12. During the oral evidence session on 22 January 2025, the Committee asked the Scottish Government to update it on timescales for reporting on the transparency review and on its scope.
13. The Director-General Economy told the Committee that SCAD had identified six reports where they considered the balance between commercial sensitivity and transparency had changed with the passage of time. He said:

“We think that we are now in a position to publish the reports in the fullest possible way, although there will still be some redactions. We will also publish the Burntisland Fabrications Ltd evaluation report again. There will be some redactions, but we are trying to go as far as possible to meet the demands for greater transparency—which we fully recognise and support—while protecting commercial sensitivity”.

14. On 7 February 2025, the Committee [received correspondence from the Director-General Economy, Scottish Government](#) providing the update of the transparency review referred to. The letter provided six reports prepared by external consultants for the Scottish Government relating to Ferguson Marine and a further evaluation report covering the Scottish Government’s intervention with the BiFab business prior to its administration.
15. The Committee considered the correspondence at its meeting on 26 March 2025 and agreed to [write to the Director-General Economy](#) seeking clarification on the overall transparency of the materials provided and the extent of the redactions in the reports provided. The Director General Economy [responded to the Committee](#) on 4 April 2025. The correspondence is provided at **Annexe B**.
16. The Committee also agreed to invite the Director-General Economy and SCAD officials to a future meeting to discuss the published reports and response from the Scottish Government in further detail.
17. The session will also provide an opportunity for the Committee to receive an update from SCAD on its broader work following its session last year.

Next steps

18. The Committee will decide any further action it wishes to take following the evidence session today.

Clerks to the Committee
May 2025

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The 2023/24 audit of the Scottish Government Consolidated Accounts



AUDITOR GENERAL 

Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
October 2024

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Key messages

- 1 My independent audit opinion is unqualified. This means, in my opinion, I am content the Scottish Government Consolidated Accounts show a true and fair view, follow accounting standards, and that the income and expenditure for the year is lawful.
- 2 The Scottish Government continues to respond to emerging financial pressures to balance the budget. The options being applied provide short-term relief, but their one-off nature means they do not address the overall unsustainable financial position for the Scottish public sector.
- 3 It is critical that the Scottish Government increases the pace of reforming the design and delivery of services, including the size of the public sector workforce, to make them affordable. There has not yet been enough progress with the reform of public services.
- 4 The cost of completing MV Glen Sannox and MV Glen Rosa increased to £299.1 million in February 2024. Due diligence has commenced but until it is concluded there is no clear value for money assessment for the increased cost.
- 5 Following the significant issues identified in the Water Industry Commission for Scotland it is vital that the Scottish Government remains focused on improving the quality and consistency of sponsorship arrangements for public bodies.
- 6 Oracle Cloud went live in October 2024, following earlier delays and cost overruns. In order to achieve its ultimate objective, the system must provide better data to support decision-making and deliver efficiencies.
- 7 The revision of the National Performance Framework has progressed throughout 2024, and it is critical that the agreed National Outcomes are supported by measurable indicators which can demonstrate the progress being made. We cannot continue to be a position where indicators do not progress beyond development.

Introduction

1. I am submitting the Scottish Government Consolidated Accounts and auditor's report for 2023/24 under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. My report is intended to support the Scottish Parliament in its important scrutiny role of the Scottish Government. The report contains key information from the 2023/24 Consolidated Accounts and explains what they show about the Scottish Government's management of its budget. It also provides information on financial management, sustainability, governance and performance reporting.

Background

3. The accounting boundary for the Consolidated Accounts reflects the areas for which the Scottish Government has direct responsibility and accountability, including the core portfolios, supporting administration, executive agencies and NHS bodies. It does not include bodies where the Scottish Government holds significant shareholdings such as Ferguson Marine (Port Glasgow) Holdings Limited, Caledonian Maritime Assets Limited (CMAL), Scottish Futures Trust, Glasgow Prestwick Airport or the Scottish National Investment Bank. These are reflected as investments within the Consolidated Accounts. Other public bodies such as local authorities, and areas of expenditure such as public sector pension schemes, are also out with the accounting boundary.

4. The Scottish Government Consolidated Accounts:

- cover around 90 per cent of the budget approved by the Scottish Parliament
- report the amounts spent against each main budget heading, and the reasons for any significant differences
- show the amounts distributed to other public bodies including local government
- report the assets, liabilities and other financial commitments of the bodies within the consolidated boundary, that are carried forward to future years
- contain a performance report, in which the government gives an account of its performance during the year.

Financial management

My audit opinions on the annual report and accounts are unqualified

5. My independent auditor's report is set out at pages 98-101 of the Consolidated Accounts. My opinions on the 2023/24 financial statements are unqualified. This means, in my opinion, I am content the Scottish Government Consolidated Accounts show a true and fair view and have been properly prepared to follow accounting standards and that the income and expenditure for the year is lawful.

6. The Consolidated Accounts show that total net expenditure during 2023/24 was £53,980 million, £277 million less than budget. The resource budget was underspent by £193 million (0.4 per cent) against a budget of £51,766 million. Capital was underspent by £84 million (3.4 per cent) against a budget of £2,491 million.

7. High-level reasons for significant variances between actual and budgeted spend are included in the Consolidated Accounts.

8. For 2023/24 the net spend on NHS Recovery, Health and Social Care was £19,138 million (£18,674 million resource and £464 million capital). The net spend on Social Security was £5,686 million (£5,602 million revenue and £84 million capital). These two areas account for 46 per cent of the total Scottish Government spend in Scotland in 2023/24. These areas feature on my forward work programme and I intend to report to Parliament on these key areas of public spending over the coming year.

The auditor of Social Security Scotland continues to qualify their regularity opinion

9. Social Security Scotland is now well established and, as an executive agency, is included in the Consolidated Accounts.

10. The 2023/24 annual accounts of Social Security Scotland include total benefit expenditure of £5,163 million of which £3,238 million (63 per cent) was administered by the Department for Work and Pensions (DWP) under an agency agreement with Scottish Ministers. Due to these delivery arrangements, Social Security Scotland cannot directly assess the levels of fraud and error in these benefits and is instead reliant on the DWP's annually published estimates.

11. The estimated overpayments as a result of fraud and error in the benefits delivered by the DWP, ranged from 0.4 to 5.2 per cent of expenditure. This means an estimated £42.4 million of overpayments were made in Scotland. This has reduced from £60.7 million last year. By the end of 2025/26, it is anticipated that the administration of all devolved benefits will have transferred from the DWP to Social Security Scotland.

12. The auditor qualified their regularity opinion as these overpayments were not incurred in accordance with relevant legislation and regulations. Further details can be found in the 2023/24 Annual Audit Report of Social Security Scotland.

13. As a component audit of the Consolidated Accounts, the qualified regularity audit opinion for Social Security Scotland requires me to assess the potential impact of its inclusion within the Scottish Government's Consolidated Accounts. As in previous years, I concluded that the likely amount of error and fraud incurred is not significant enough to influence the economic decisions of the users of the Consolidated Accounts and therefore I have not qualified my opinion in respect of this matter.

14. I have produced a range of reports looking at the implementation of the Scottish social security system in recent years. During 2025, I intend to publish a report focused on the Adult Disability Payment which currently accounts for just under half of the benefits expenditure processed by Social Security Scotland.

Progress has been made in preparing a fuller picture of what the Scottish public sector owns and owes

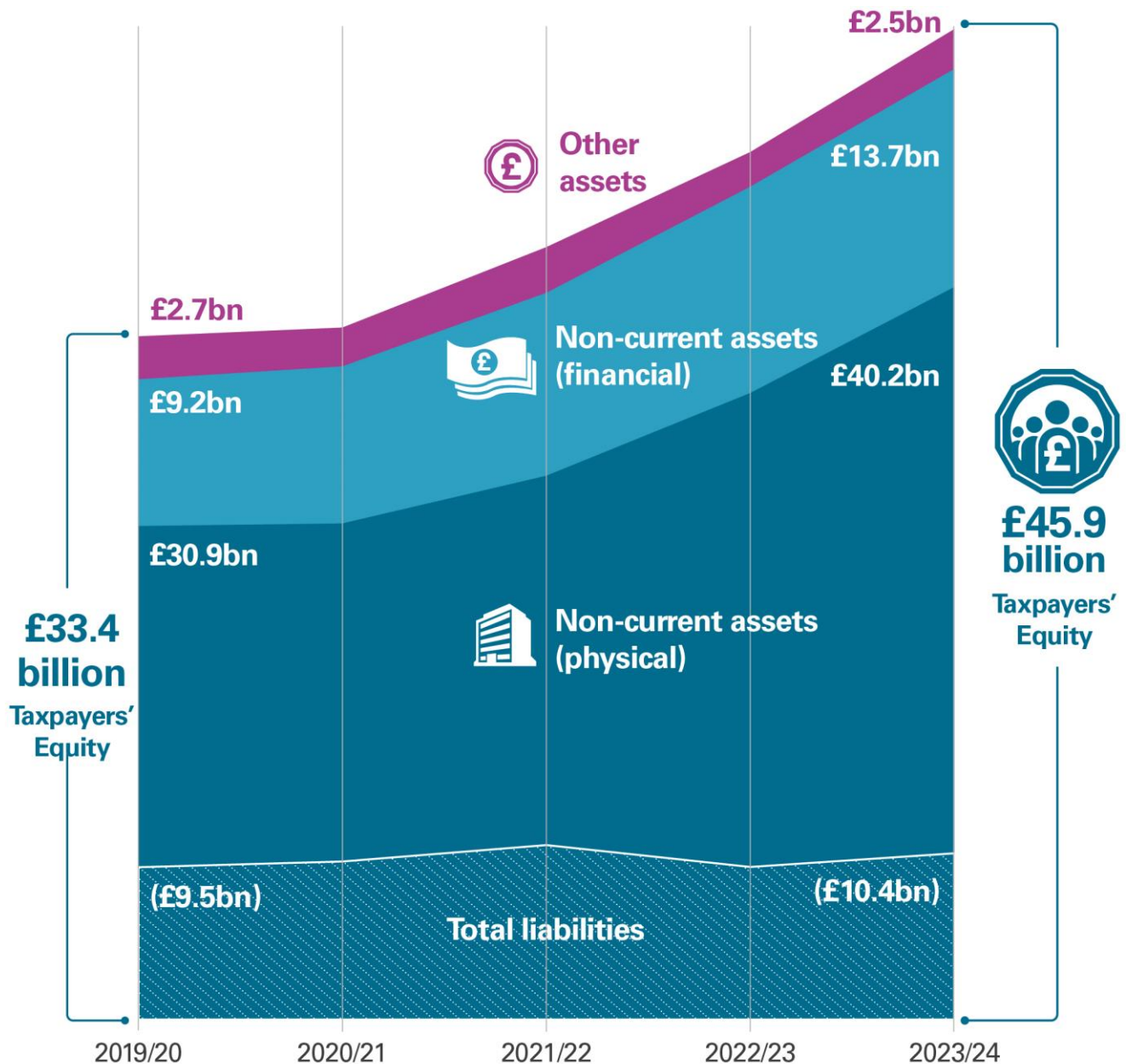
15. The Consolidated Statement of Financial Position is one of the primary financial statements in the Consolidated Accounts. It summarises what is owned and owed by the core Scottish Government and those public bodies within the consolidated boundary. This shows taxpayers' equity – an accounting measurement of the amount of taxpayers' money applied that has continuing public benefit. It shows how much of this has arisen from the application of parliamentary funding (arising from the Scottish Block Grant, borrowing and devolved taxes) and how much resulted from changes in the value of physical assets over time.

16. As detailed in [Exhibit 1](#), taxpayers' equity has increased in each of the last five years from £33.4 billion to £45.9 billion, largely due to an increase in physical assets (such as property and roads) and financial assets (such as loans and investments). Total liabilities (such as payments for private-financed projects) have also increased from £9.5 billion in 2019/20 to £10.4 billion in 2023/24.

17. It is important to note that this position does not reflect all the assets and liabilities of the Scottish public sector. These accounts do not include resource and capital borrowing, local government assets and liabilities and all public sector pension assets and liabilities.

Exhibit 1

Financial position



Source: Audit Scotland

18. In 2016, the Scottish Government committed to producing a consolidated account to cover the devolved public sector in Scotland. I am pleased to report that progress has been made during 2023/24 in collating financial information across the Scottish public sector.

19. The Scottish Government has prepared financial information, based on 2022/23 assets and liabilities, to provide a more complete picture of the financial position associated with the financial powers and responsibilities devolved to the Scottish Parliament. They are engaging with interested parties, including Parliamentary committees, to gather insights on its usefulness as a basis for further development. Following completion of the

2023/24 public sector audit process, this financial information will be updated to provide timely insight on the assets and liabilities of the Scottish public sector.

The Scottish Government continues to manage the risks associated with financial interventions

20. The financial interventions are managed by the Strategic Commercial Assets Division (SCAD) which has five units covering initial assessment through to potential exit strategy.

21. SCAD has developed a range of guidance covering areas such as restructuring and insolvency and due diligence checklists. All these strands will be included within a 'playbook', a repository for guidance across possible phases of the interventions lifecycle. I welcome the fact that a monitoring framework is in development to report on the performance of each asset utilising industry specific indicators.

22. [Exhibit 2](#) outlines the financial support that has been made to private companies that are now being managed by SCAD. I have asked the audit team to continue to monitor and report on these financial interventions.

Exhibit 2

Financial interventions to private companies

Financial intervention	Incurred in 2023/24	Total financial investment	Value in Consolidated Accounts
Prestwick Airport Purchased by the Scottish Government in November 2013 with the stated aim of protecting jobs and safeguarding the asset. Responsibility transferred from Transport Scotland to the Scottish Government in January 2023. An assessment of the recoverability of the loans was undertaken resulting in the partial reversal of previous loan impairments of £9.6 million. Total investment consists of capital (£43.4 million) and interest (£12.1 million).	£3 million	£55.5 million	£21.2 million Increase in loan recoverability of £9.6 million.

Financial intervention	Incurred in 2023/24	Total financial investment	Value in Consolidated Accounts
<p>Ferguson Marine (Port Glasgow) Holdings Limited</p> <p>Established by the Scottish Government in December 2019 after Ferguson Marine Engineering Limited (FMEL) went into administration. The existing voted loans (£97.7 million) were terminated and the difference between the valuation of the ferry vessels (£74.8 million) and the valuation of the outstanding loans (£22.9 million) was written-off in 2020/21.</p> <p>The vessels are valued based on the original contract price (plus inflation uplift) and subsequent expenditure, less an estimation of impairment. The impairment in 2023/24 was £55.2 million.</p>	£67.2 million	£304.7 million	<p>£94.6 million</p> <p>Increase in value of £12 million.</p>
<p>Lochaber Aluminium Smelter – Liberty Group</p> <p>In December 2016, the Scottish Government issued a 25-year financial guarantee contract to SIMEC Lochaber Hydropower Limited. The Scottish Government receives an annual fee in return for the guarantee. The annual exposure to the Scottish Government is between £14 million and £32 million, over the lifetime of the contract.</p> <p>In March 2021, Greensill Capital (UK) Limited, the majority provider of working capital to GF Alliance (the holding company), went into administration. There continues to be uncertainty regarding the financial stability of the GFG Alliance Group.</p> <p>In 2023/24, the Scottish Government reviewed the level of provision required for their guarantee and decreased it by £5 million to £130 million. This has been reviewed and assessed as reasonable.</p>	£5 million decrease in provision	Nil	Provision of £130 million

Financial intervention	Incurred in 2023/24	Total financial investment	Value in Consolidated Accounts
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Burntisland Fabrications Limited (BiFab)

Nil

£50.9 million

Nil

In 2018/19, the Scottish Government converted £37.4 million commercial loans into equity representing a total equity stake of 32 per cent. BiFab were placed into administration in December 2020 and the Scottish Government is now pursuing a return through the administration process.

Source: Audit Scotland

The Scottish Government responded to the emerging financial pressures during 2023/24 by implementing short-term solutions

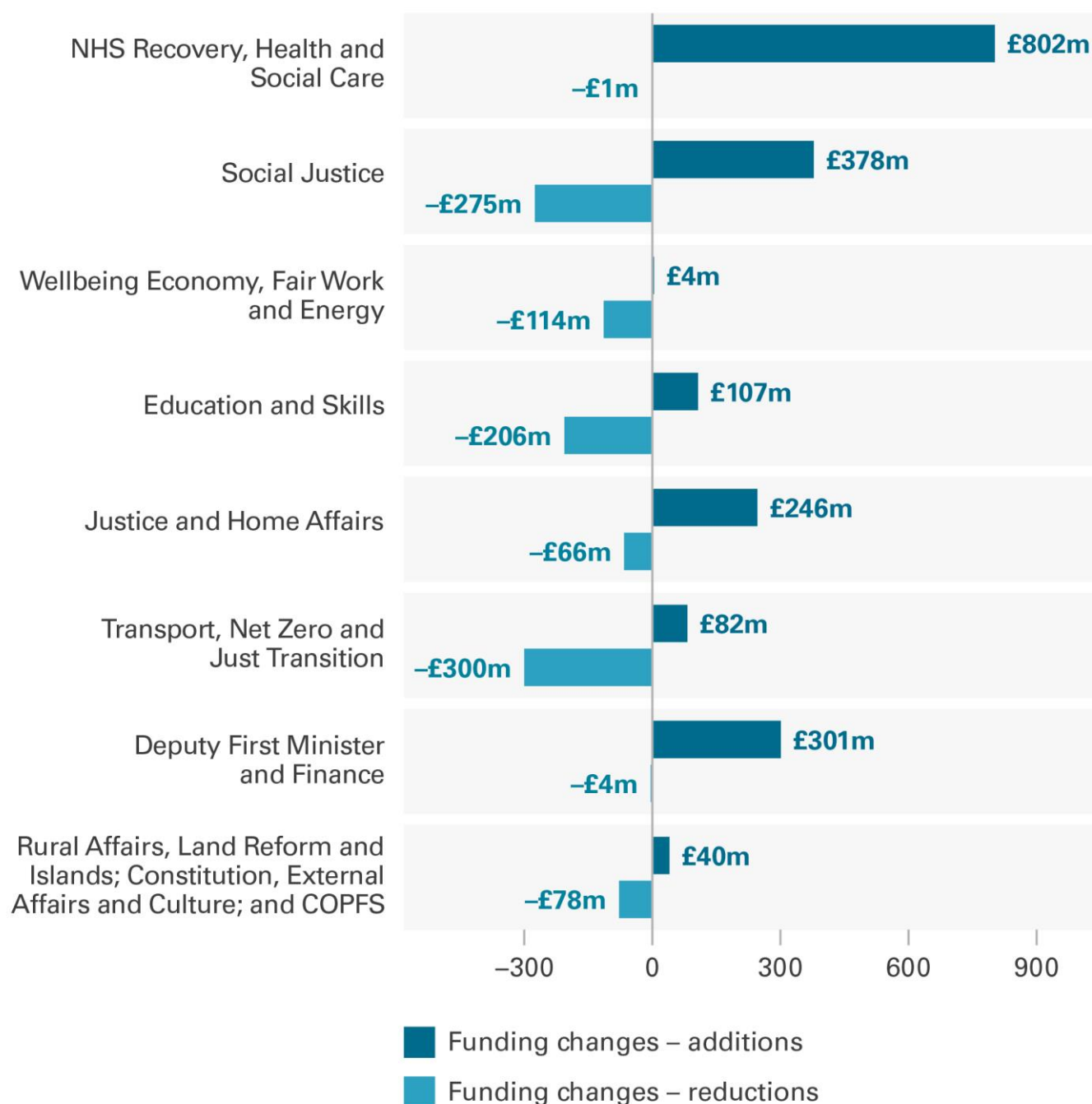
23. The Scottish Government budget decreased as part of the Autumn ([ABR](#)) and Spring ([SBR](#)) Budget revisions (total decrease £1.19 billion). The decrease was largely due to a technical accounting adjustment at the SBR in relation to future NHS and teachers' pension costs which has no impact on discretionary spend. At each budget revision a range of amendments are processed, including funding adjustments, technical adjustments, Whitehall transfers and transfers within the Scottish Block. A number of deductions were made at ABR (£84.4 million) and SBR (£959.1 million) whereby funding was returned to the centre for redeployment elsewhere.

24. In between the publication of ABR and SBR, in November 2023, the Deputy First Minister advised Parliament that additional costs had arisen and a range of savings were required to balance the Scottish Government budget. Many of these were included within the ABR and SBR. The main pressures arising were public sector pay deals and on cost of living due to inflationary pressures.

25. [Exhibit 3](#) highlights the impact of funding adjustments on each of the portfolios. The main provider of funding was Transport, Net Zero and Just Transition, and Education and Skills. The reduction in these portfolios is a reaction to addressing the immediate funding pressures without clear consideration of the potential impact on key priorities of the Scottish Government.

Exhibit 3

Scottish Government 2023/24 budget changes



Source: Audit Scotland analysis of ABR and SBR

26. Savings of £680.3 million were identified, split across portfolio resource savings of £296.6 million, capital savings of £226.8 million and consequential funding received from the UK Treasury as part of the UK Spring Statement Main Estimates (resource £94.8 million and capital

£62.1 million). The challenge was lower than in 2022/23 when two emergency budget reviews were undertaken.

27. In addition to the above, the Scottish Government continued the central Accountable Officer spending control process which requires proposals to be agreed via Director-General Accountable Officer, the Chief Financial Officer, the Permanent Secretary, and Ministers as appropriate before proceeding. There was also an increased focus on workforce, with recruitment controls in place.

28. While I recognise that these spending and recruitment controls were considered necessary by the Scottish Government to manage the budget pressures, this approach is not sustainable.

Sustainability

Finding a path to balance for 2024/25 has been challenging and the outlook remains difficult

29. The 2024/25 Scottish Government Budget was passed by Parliament in February 2024 and was set at £59.3 billion. As noted in [paragraphs 24-27](#), achieving financial balance in 2023/24 required a reprioritisation of spending plans, increasing the pressure for future years.

30. In recognition of the deteriorating financial position during the year, emergency spending controls were introduced in August 2024 whereby only expenditure which was essential or unavoidable could be undertaken. In addition, all discretionary expenditure was stopped. Recruitment other than for frontline or critical workers was paused.

31. In September 2024, a range of measures were announced in order to achieve a balanced outturn position in addition to the above emergency spending controls. These measures included:

- ending the off-peak rail fare pilot and not proceeding with the asylum seekers' concessionary bus pass pilot, and allowing local government to use existing programmes to fund pay deals (£65 million)
- means testing the winter fuel payments (up to £160 million)
- emergency spending controls (£100 million)
- using ScotWind revenue (up to £460 million).

32. As a consequence of the action taken, the Scottish Government is more assured of achieving financial balance in 2024/25 but substantial risks remain. The majority of the savings continue to be non-recurring in nature but are being used to fund recurring expenditure. The Scottish Government recognises that further work is required to ensure a credible path to balance is maintained. Financial management has been a core element of the assurance and governance arrangements with the budget being closely managed.

33. Tackling the climate emergency remains a key priority for the Scottish Government. I note the Cabinet Secretary for Finance and Local Government confirmed to Parliament that they will look to reduce the use of ScotWind in 2024/25 as far as possible. The decision to use the remaining ScotWind revenue to balance the 2024/25 budget is

inconsistent with earlier intentions, expressed throughout 2022, for this money to be invested in addressing the climate and biodiversity crises.

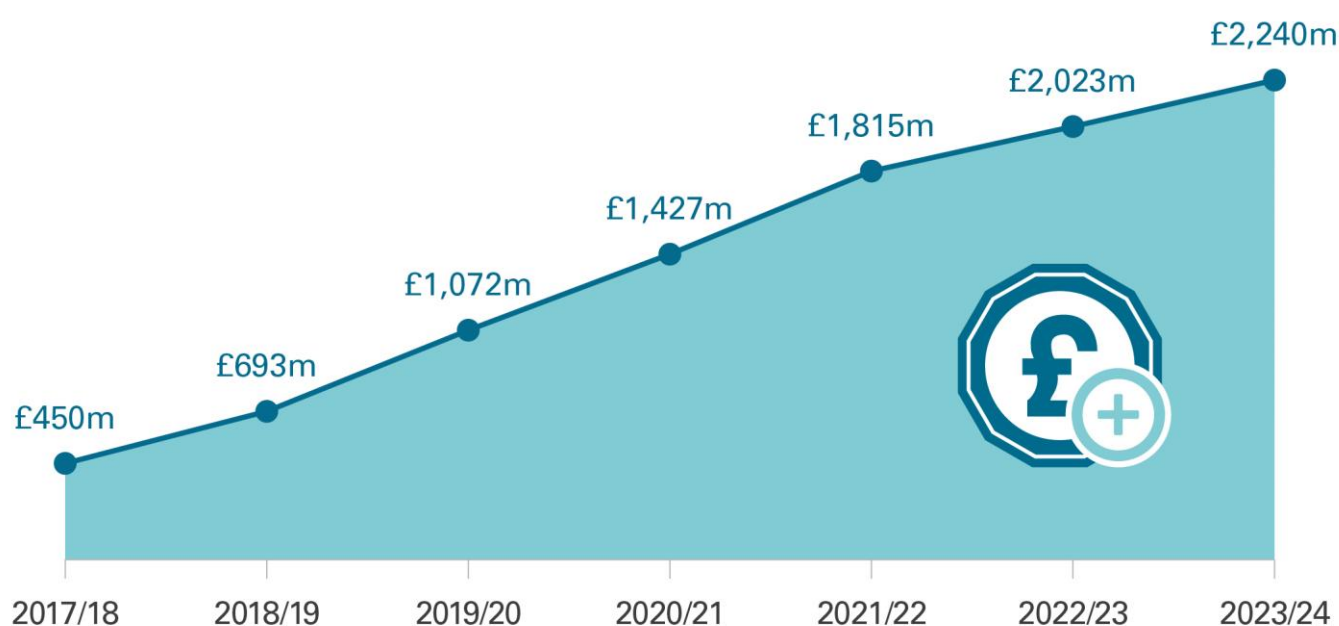
Repayments on borrowing continue to grow and will need to be managed within overall spending limits

34. In 2023/24, the Scottish Government borrowed £300 million to support the overall capital programme, less than the £450 million that was outlined by Scottish Ministers in the budget. The loans will be repaid to the National Loans Fund over ten years, in line with the timescales outlined in the Fiscal Framework.

35. In 2023/24, the Scottish Government borrowed to fund resource expenditure, as it has done in the previous three years. During the year it borrowed £104 million from the National Loans Fund to be repaid over five years. The resource borrowing was £63 million greater than budgeted.

36. As at 31 March 2024, the total principal amount of capital borrowing outstanding was £1,763.8 million, with interest of £296.0 million applying over its remaining life, up to 25 years. Resource borrowing outstanding at 31 March 2024 was £476.3 million with interest of £25.2 million accruing over the five-year repayment period. [Exhibit 4](#) highlights the growth in principal outstanding at each year end (capital and resource).

Exhibit 4 Outstanding principal



Source: Audit Scotland analysis

37. Due to the accumulation of annual borrowing in recent years, loan repayments are increasing and totalled £217 million in 2023/24 (£160 million in 2022/23). Any increase in borrowing, particularly resource borrowing which is repaid over a shorter period and with higher interest rates, will still fall to be met alongside all other financial pressures.

38. The Scottish Government will need to continue to manage the pressure of repayments alongside all other financial pressures in the years ahead. This therefore restricts its future spending choices.

The Scottish Government needs to make changes to the design and delivery of services, including the size of the public sector workforce, to make them affordable

39. Both the Resource Spending Review in May 2022 and the Medium-Term Financial Strategy in May 2023 set out public service reform as an essential tool to provide effective service delivery, reduce duplication and reduce costs. The Scottish Government has set out a ten-year programme of public service reform overseen by the Director-General Communities.

40. In addition to significant pressures on public finances, the use of non-recurring savings to fund recurring expenditure has further exacerbated the problem and the need to reform public services is crucial to achieving a sustainable future. While there have been some changes to the funding and delivery of public services there is, as yet, no clear plan for what reform will achieve or the associated timescale. I will be reporting in November 2024 on the Scottish Government's approach to fiscal sustainability and reform.

41. Public service reform will take time and there is a need to balance short term efficiencies, to assist the challenging immediate financial situation, with the longer-term reform of service delivery.

42. Since the new UK Chancellor of the Exchequer announced the acceptance of the recommendations from the pay review bodies in July 2024 the Scottish pay offers have exceeded the public sector pay policy. Scotland has a relatively larger public sector workforce than the rest of the UK with a higher average salary.

43. As highlighted in my report '[The Scottish Government's Workforce Challenges](#)' (October 2023), pay costs for NHS, central government, police and fire services, and further education were £13.4 billion in 2021/22. With recent pay deals exceeding the Scottish Government's public sector pay policy, £1.7 billion more than initially planned was agreed in pay deals for 2022/23 and 2023/24. These rises are locked into future budgets and are making it harder for the Scottish Government to manage pay costs over time.

44. Workforce reform needs to be a core part of public service reform. Since devolution, the Scottish Budget and workforce numbers have grown significantly. The Scottish Government's projections suggest that it cannot afford to pay for public services in their current form. Reform is urgently needed to address budget shortfalls of more than £1 billion over the coming years.

45. Difficult decisions need to be made to secure a sustainable future for public services in Scotland.

Governance

The Governance Statement within the Consolidated Accounts provides insight into the arrangements in place

46. A Governance Statement prepared by the Permanent Secretary is a key feature of the Consolidated Accounts (pages 57-75). It forms part of the wider accountability report and summarises how the Scottish Government is controlled and directed. The statement highlights the main risks and opportunities and any significant internal control issues in 2023/24. I am content that the Governance Statement is consistent with the financial statements and has been prepared in accordance with guidance issued by the Scottish Ministers.

Governance arrangements were recently reviewed and the planned changes should be embedded moving forward

47. The Scottish Government has well established governance and assurance arrangements in place, involving both Senior Management Team and Non-Executive Directors.

48. During 2023/24, alternative approaches were piloted at Assurance Group meetings which have since been rolled out. There has been a welcome move towards reducing the number and length of papers provided for each meeting, the time involved in attending each meeting and more focus on the key assurance areas.

49. In addition, a review of governance arrangements was undertaken by the Scottish Government in 2023/24 and the findings are being implemented. The review covered for example: a standard Terms of Reference for boards, the extension of the Director-General Assurance pilot referred to above, and further clarification of roles and responsibilities. The impact of these changes should be assessed going forward.

The increased costs for MV Glen Rosa have not been subject to sufficient due diligence

50. I reported last year that appropriate processes were followed when assessing the value for money of MV Glen Sannox and MV Glen Rosa. The due diligence review resulted in a written authority being issued, on 14 May 2023, by the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy for the completion of MV Glen Rosa.

51. Since then, the cost of completing both vessels has continued to rise and now seems to have stabilised at £299.1 million. The previous due diligence exercise was based on a total cost of completion for both vessels of £203 million.

52. In March 2024, following the cost projections increasing to £299.1 million, the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy advised Parliament that due diligence had commenced to ensure the increased costs were accurate and justifiable. Although a review of the cost projections has been completed, it is disappointing that the accompanying value for money assessment has not been updated. To satisfy the requirements of the Scottish Public Finance Manual this should be concluded as a matter of urgency. Its absence means that the Accountable Officer, Ministers and the Scottish Parliament cannot be assured that the £96 million increase in expenditure on the vessels represents value for the taxpayer.

Improving the quality and consistency of sponsorship arrangements for public bodies must remain a priority area

53. I previously reported that the Scottish Government had implemented the recommendations set out in the independent review of its relationships with public bodies. I noted, however, that it would take time for the Scottish Government to demonstrate the impact of these actions including the necessary cultural and behavioural change.

54. In December 2023, I drew Parliament's attention to significant weaknesses in the governance and financial management arrangements within the Water Industry Commission for Scotland (WICS) including concerns around the achievement of value for money in the use of public funds.

55. The Scottish Government responded to my findings by initiating an independent review of WICS together with an internal review of the sponsorship arrangements in place. Alongside this, over summer 2024, each Director-General completed a deep dive into the sponsorship arrangements within their portfolios.

56. It is critical that the quality and consistency of sponsorship arrangements within the Scottish Government is improved. I have asked the audit team to continue to monitor the action taken and advise me of any concerns.

Oracle Cloud went live in October 2024, following earlier delays and cost overruns, but must now be used to provide better data to support decision making and deliver efficiencies

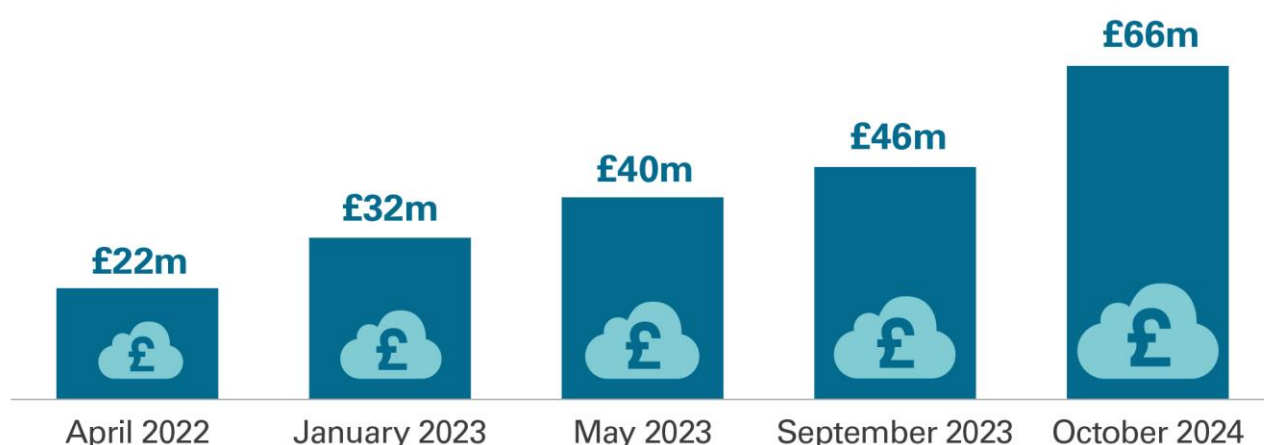
57. Last year I reported that there was an expected go-live date for the new Oracle Cloud, HR and Finance system, of 1 April 2024. In

December 2023 the Scottish Government decided to delay implementation as they could not see a clear and safe path to implement on that timeline. Plans moved to an October 2024 go-live. To support this the project team spent time assessing organisational readiness, both within the Scottish Government and in the other public sector bodies.

58. Project implementation costs are currently estimated to be £66 million up from £22 million at the start of the project in April 2022. The Scottish Government is anticipating a VAT recovery of £7.6 million, which would reduce the project cost to £58 million. The increased cost can be attributed to a combination of an underestimation of the scale and complexity of the programme and associated restated timelines. Each month of delay has resulted in an additional cost of £3 million to maintain the legacy systems. The costs are shown in [Exhibit 5](#).

Exhibit 5

Oracle implementation costs



Source: Audit Scotland

59. The system went live in October 2024; however successful implementation is more than just the new system being in place. It requires each of the bodies to be accessing and using better data to support decision making, delivering efficiencies and improving cyber security arrangements. I have asked the audit team to monitor and assess the planned post implementation review. I will report on the implementation of Oracle Cloud during 2025.

Performance reporting

The Performance Report within the Consolidated Accounts has improved but there remains opportunities for further development

60. The 2023/24 Consolidated Accounts include a performance report (pages 4-55) and an accountability report (pages 56-97) in line with the requirements of the Government Financial Reporting Manual (FReM).

61. The performance overview section (pages 5-21) sets out the National Performance Framework (NPF) together with progress towards the eleven National Outcomes. Eighty-one national performance indicators have been assessed with 21 improving, 35 maintaining, and 14 worsening. No performance was reported against 11 indicators as they were either in development (6) or the data could not be calculated due to changes in the methodology (5).

62. The performance analysis section (pages 22-55) has been redesigned to focus on the three missions set out in the Policy Prospectus and sets out actions taken during the year to deliver on them. This is a welcome change to the narrative from prior years where the analysis tended to focus on the performance of Director-General portfolios. The narrative provides the reader with a range of performance detail set against the missions together with some trend information.

63. While we recognise improvements have been made to the reporting in 2023/24, the performance report needs to be more transparent with a golden thread linking all aspects of performance and providing an overall view of progress. Without clear targets against which activity can be measured, it remains difficult to form an overall picture of the performance of the Scottish Government.

The complicated landscape of priorities is hindering the achievement of outcomes

64. During 2023/24, the Scottish Government published the Policy Prospectus (in April 2023) and the Programme for Government 2023/24 in September 2023. The Policy Prospectus set out three interdependent missions:

- equality – tackling poverty and protecting people from harm
- opportunity – a fair, green and growing economy

- community – prioritising public services.

65. Since then, the 2024/25 Programme for Government has been issued by the new First Minister and sets out the Scottish Government's commitments for the year within four key priorities. It outlines key actions to be taken during the year against the four priorities of:

- Eradicating child poverty
- Growing the economy
- Tackling the climate emergency
- Ensuring high-quality and sustainable public services.

66. There are also a number of major programmes currently being progressed by the Scottish Government, each with their own objectives, targets and policies. Aligning funding to priorities is essential for effective decision making. The continuing revisions and development of policy, limits the ability to be transparent, provide continuity and report achievement across the key priorities. There is an absence of clearly defined performance measures with measurable targets for all priority areas.

67. The revision of the NPF has progressed throughout 2024 and it is critical that the agreed National Outcomes are supported by measurable indicators which can demonstrate the progress being made over the associated timescales. It is unacceptable that six indicators for the previous NPF remain in development.

Conclusion

68. The Consolidated Accounts remain a critical component of the Scottish Government's accountability to the Scottish Parliament and the public. The recent, regular requirement to implement in-year savings to balance the budget demonstrates the unsustainable financial position for the Scottish public sector. The Scottish Government needs to better link spending decisions with the achievement of priorities and outcomes and demonstrate this transparently to the people of Scotland.

The 2023/24 audit of the Scottish Government Consolidated Accounts



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Annexe B Correspondence from the Director General, Economy dated 4 April 2025

Ard-stiùiriche na h-Eaconomaidh
Director-General Economy
Gregor Irwin



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Richard Leonard MSP
Convener
Public Audit Committee
Room T3.60
The Scottish Parliament
EDINBURGH EH99 1SP

4 April 2025

Dear Mr Leonard

Strategic Commercial Assets: Transparency Review

Please find our Report of Findings and Recommendations of the Strategic Commercial Assets Transparency Review attached at Annex A to this letter.

Thank you for your letter of 17 March relating to the information pack we shared with the Committee on 7 February. We note the Committee's feedback on the level of redactions applied to the information pack and welcome the opportunity at the Committee session scheduled for 21 May to discuss our approach with you. In the meantime, we offer some preliminary responses to your key points below.

The Committee asks if the Scottish Government sought any further clarification or raised concerns with FMI or other consultants regarding redactions?

The Scottish Government model contract terms and conditions were adopted in contracting First Marine International (FMI) which include conditions stipulating that all information will be treated as commercial in confidence by the parties. Exceptions to that condition relate only to information required by law, regulation or judicial order, such as in response to a Freedom of Information (Scotland) 2002 (FOISA) request, which includes provisions to withhold information through application of exemptions.

In addition, FMI applied a disclaimer to the report which requires their consent for the report, or information contained within the report, to be shared beyond the parties to the contract. FMI were not willing to prejudice their commercial interests nor those of Ferguson Marine and did not consent to the release of information contained within their report deemed by them to be commercially sensitive.

The methodology we applied to the material, before publication, includes a panel of officials who reviewed the material line-by-line to strike the right balance between transparency and the public interest with the protection of commercial interests, personal information, and legal

rights. We are content that the panel's judgement in relation to the redactions applied is appropriate.

Information was redacted from the reports prepared by FMI and Teneo where it was considered that disclosure would (or would be likely to) substantially prejudice commercial interests.

The Committee would welcome clarification on the broader due diligence process undertaken by the Scottish Government when selecting external consultants. This would help the Committee better understand how the Scottish Government ensures that consultants provide reports of adequate transparency.

Contracts for the provision of commercial advice from external advisors are tendered in accordance with the Public Contracts (Scotland) Regulations 2015 which include commitments to transparency. The due diligence of suppliers is completed as part of the tendering exercise.

Your sincerely,

GREGOR IRWIN

Director-General Economy
Scottish Government

**Report of Findings and Recommendations
Strategic Commercial Assets Division
Transparency Review**

Transparency Review of the Strategic Commercial Assets Division

A Report of Findings and Recommendations

APRIL 2025

Chapter 1 – Background

Introduction

1. This report concerns the transparency of the work of the Scottish Government's Strategic Commercial Assets Division (SCAD). It recommends to Scottish Ministers a series of steps to improve transparency whilst protecting commercial interests.
2. SCAD was established in July 2022 to ensure the effective governance and stewardship of commercial assets where the government has a financial stake or exposure. The division is responsible for the government's shareholdings in Ferguson Marine (Port Glasgow) Limited (a non-departmental public body) and Glasgow Prestwick Airport (a public corporation). The division also oversees the government's financial interest in the guarantee for the aluminium smelter and hydro-electric power station at Fort William and the government's creditor interest in the administration of Burntisland Fabrications Ltd (BiFab).
3. SCAD separates the sector policy function from the commercial function, lessening the potential for unintended bias in support of wider sectoral policy objectives. The division advises Ministers on key decisions to secure full value for money, provide a strong return on investment and maximise the benefits for local communities and the public good by securing skilled jobs.
4. The division is supported by external commercial and legal advisors who provide additional specialist commercial, financial and technical expertise. This external expertise tends to be contracted on a time-limited basis to support specific projects: for example, due diligence on a business case, asset valuations, support for market testing and divestment activity or pursuing a creditor claim during an administration process.
5. The subject matter of SCAD's work tends to involve gathering and holding sensitive information with a high degree of commercial confidentiality to which access is tightly controlled. In handling this information, care is needed to balance transparency interests and the need to protect commercial interests.

Transparency Policy

6. The transparency review takes place in the context of well-established policy and legal frameworks supporting open government.
7. The National Performance Framework, which sets out the government's long-term vision, has transparency as a strategic objective. This aim is supported by the [Information Management Strategy \(2021\)](#) which outlines the many benefits that high quality information management brings. The government is embedding the strategy via the [Open Government action plan 2021 to 2025](#). The principles of open government are set out in the [Scottish Ministerial Code](#) and captured in the fifth Nolan Principle: *Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.*

Transparency Legislation and Guidance

8. Transparency and openness are important for effective government. Under the Freedom of Information (Scotland) Act 2002 (FOISA) anyone who requests information, which is held by a Scottish public authority, is entitled to receive it within twenty days subject to certain conditions and exemptions set out in the Act.
9. Once information is disclosed to individuals, the Scottish Government also publishes it under the "publication scheme" duty to ensure the wider public has access to it. All Scottish public authorities have adopted the Scottish Information Commissioner's Model Publication Scheme which requires them to publish a Guide to Information that they make available. The Scottish Information Commissioner is the independent public official responsible for promoting and enforcing Scotland's freedom of information (FOI) law. The Commissioner's work includes issuing Decision Notices in relation to appeal applications from requesters who are dissatisfied with the response they received from a Scottish public authority.
10. The Public Finance and Accountability (Scotland) Act 2000 sets out the framework for managing public finances in Scotland. It establishes rules on how public money is collected, spent, audited, and reported to ensure transparency and accountability in government financial operations. The Act enhances transparency through several key mechanisms:
 - By establishing the role of the Auditor General for Scotland (AGS), who is responsible for auditing the government, public bodies and agencies.
 - Audit Scotland was created to support the AGS, ensuring that public spending is independently examined, with powers to conduct value for money performance audits, which are published.
 - Requiring public bodies to prepare annual accounts in a standard format. These accounts must be audited and published, allowing public access to financial information.
 - Scrutiny by the Scottish Parliament: The Act gives the Scottish Parliament's Public Audit Committee the power to review public spending. The AGS reports findings to Parliament.
11. Compliance with the Scottish Public Finance Manual (SPFM) provides assurance to Accountable Officers and Ministers that decisions have been based on advice supported by the appropriate evidence and due process, and that the Scottish Government and other relevant bodies follow the principles that ensure the proper handling and reporting of public funds. Specifically, the SPFM sets out:
 - The responsibilities of Ministers for policy decisions and of Accountable Officers for the propriety and regularity of the finances under their stewardship and for the economic, efficient and effective use of all related resources.
 - That Accountable Officers have responsibility to ensure appropriate advice to Ministers in respect of those duties.

- The process for Accountable Officers to seek written authority.
 - The Business Investment Framework which highlights the key steps that must be considered when Scottish Ministers are considering an initial or follow-on investment in, or financial support to, private businesses.
12. Further development of the SPFM is planned to place greater emphasis on transparency in relation to Accountable Officer assessments for key SG projects.
13. Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010 impose duties on the Scottish Government and listed public bodies to publish information on expenditure and certain other matters as soon as is reasonably practicable after the end of each financial year ([see duties on public bodies to provide information gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/duties-on-public-bodies-to-provide-information/gov.scot)). The guiding principle is to publish as much information as possible and to interpret the duties imposed by Parliament widely rather than narrowly. The Procurement Reform (Scotland) Act 2014 requires public bodies to publish contracts registers, procurement strategies, and annual procurement reports.
14. Whilst not all analysis undertaken involves external commercial advisors, where advisors are procured there is a cost. The award of such contracts is governed by procurement law in which transparency features strongly. The Public Contracts (Scotland) Regulations 2015 set out the government's commitment to transparency. All regulated contracts and those with a value greater than £50,000 for goods and services and £2 million for works are advertised on Public Contracts Scotland. Public Contracts Scotland data is published in line with Open Contracting Data Standards, which supports organisations to increase transparency and allow deeper analysis of contracting data.
15. The Subsidy Control Act 2022 (UK) sets out requirements to publish information. The Act looks to aid private enforcement of the subsidy control rules through strict transparency requirements, obliging public authorities to publish subsidy information on a central transparency database and provide pre-action information to complainants on their assessment of compliance with the subsidy control requirements.
16. This transparency review has considered the policy and legislative landscape described above and the processes already embedded in the arrangements of the Strategic Commercial Assets Division, including:
- The framework agreements in place to govern sponsorship arrangements.
 - The assurance function that assists sponsor teams to adhere with the policy and legislation framework including the SPFM.
 - The project management office that oversees freedom of information responses in line with the legislation.
 - The commercial advisory framework that ensures all contracts are procured in line with legislation and contract award notices published.
 - The publication of written authorities.

Chapter 2 – Transparency Review Workstreams

Workstreams

17. The transparency review was split into four workstreams covering different aspects of the division's work:

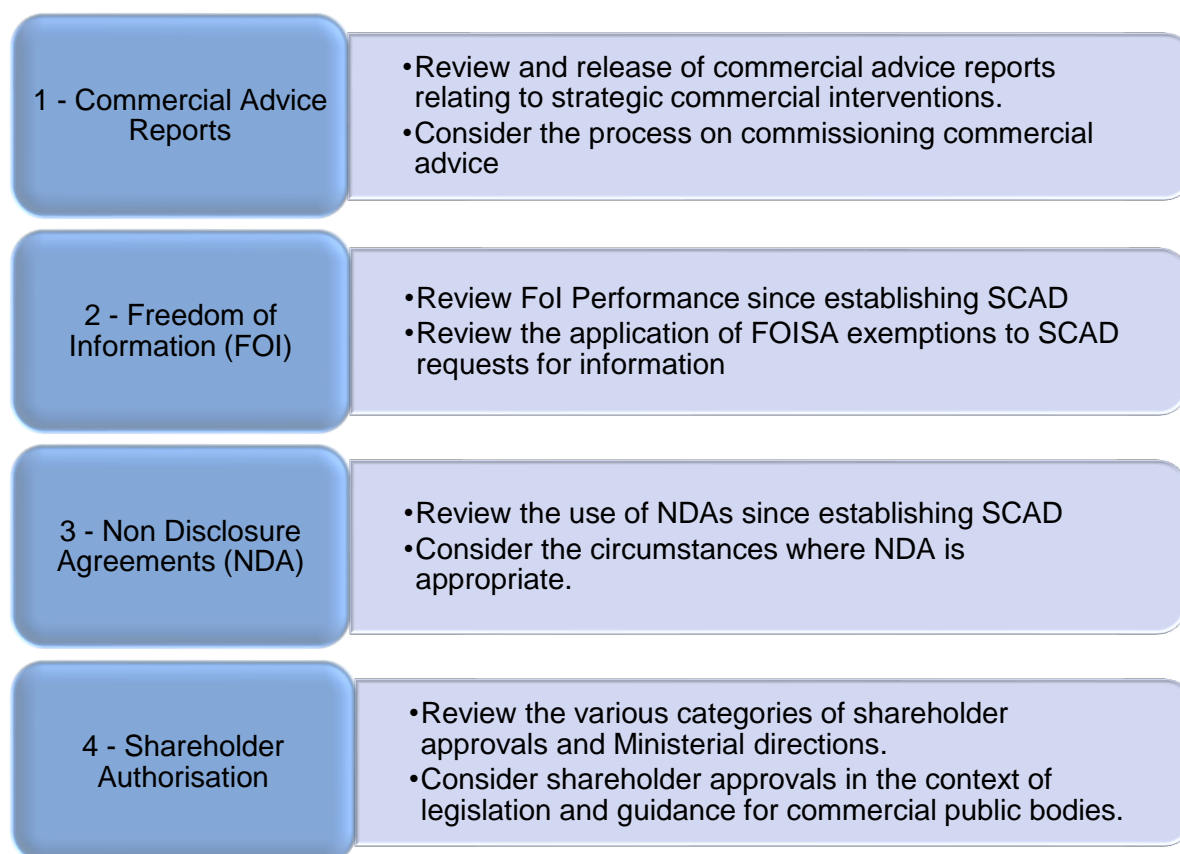


Figure 1 – Workstreams for the Transparency Review

Workstream 1: Commercial Advice Reports

18. SCAD is supported by external commercial and legal advisors who provide additional specialist commercial, financial and technical expertise. The product of this work often culminates in a commercial advice report.
19. We have reviewed thirty-two existing commercial advice reports, some produced before the division was formed, to assess their potential for release. We have also explored ways to sustain a publication scheme that strikes the appropriate balance between facilitating access to information, promoting openness and scrutiny, and protecting commercial interests and contractual rights and privileges.
20. To assess the suitability for publication of various commercial advice reports, we convened a transparency review panel that used a RAG rating system to assess the reports (see Table 1 below).

Table 1		
Status	Recommendation	Comments
R	Not for publication currently	Report is strictly commercially sensitive. The material may impact the commercial prospects of the business if released into the public domain.
A	Publication options to be considered	Report is partially commercially sensitive, but transparency enhancements can be made without compromising commercial confidentiality. Redactions to protect commercial confidentiality may be made.
G	Report to be published	Report is no longer classed as commercially sensitive and there is public value in publishing. Minor redactions may be made in line with freedom of information principles.

Progress made

21. During the review, on 7 February 2025, we shared seven reports prepared by external consultants with the Public Audit Committee¹: six reports relating to Ferguson Marine (rated as amber) and a further evaluation report (rated as green) covering the Scottish Government's intervention with the BiFab business prior to its administration. The reports rated as amber were shared with appropriate redactions to protect commercial interests, personal information and contractual rights and legal privileges. The report rated green was published without redaction on the Scottish Government's website: [BiFab: intervention analysis - gov.scot](#).
22. Most of the remaining reports reviewed as part of the transparency review have been rated red with one report rated green and one rated amber. The report rated green will be published on [www.gov.scot](#) on completion of its publication assessment. The sensitivity status of the remaining reports, including the report rated amber, will be reviewed on a 6-monthly basis to consider readiness for publication.

Workstream 2: Freedom of Information (FOI)

23. As part of the review, we examined the division's responses to requests for information made under the Freedom of Information (Scotland) Act 2002 (FOISA) and under the Environmental Information (Scotland) Regulations 2004.
24. In 2022, when the division was established, it took on FOISA cases that originated in other divisions of the Scottish Government. Since then, the division has experienced a comparatively high volume of FOI traffic when compared with other divisions of the Scottish Government, responding to forty-two FOI requests and reviews in 2024.

¹ [DG Co-ordination - Enterprise & Environment.dot](#)

25. Currently, the Scottish Government is consistently replying to over 95 per cent of requests within statutory deadlines, which is above the average across Scottish public authorities and SCAD has achieved a 100 per cent response rate over the past twelve months.
26. The transparency review found that in all instances where a case had been appealed to the Office of the Scottish Information Commissioner (OSIC), OSIC partially upheld the appeal (i.e. OSIC determined that some information was withheld correctly, and some was not). Further analysis showed that the information that was originally exempted incorrectly from release was not substantial in terms of volume or content (for instance, roles/job titles, sub-headers and dates).

Workstream 3: Non-Disclosure Agreements (NDA)

27. Non-disclosure agreements (NDAs) are legal contracts that protect confidential information disclosed between parties. They are implemented whenever confidential information must be protected and its circulation controlled, for example, in conducting due diligence or during transactions. NDAs create enforceable obligations between the signatories, namely that they will not disclose any confidential information to third parties or use the information for any purpose other than that set out in the agreement.
28. NDAs feature in some of the division's work where we have no existing commercial relationship with the other parties, and they are used to govern how sensitive commercial information is shared. The division is not involved with any NDAs that govern personnel matters, employment contracts or severance terms.
29. In this review, we have reviewed the NDAs linked to recent commercial advice reports to ensure standardisation and propose to maintain a register of NDAs linked to the division's work that describes their purpose.

Workstream 4: Shareholder Authorisation

30. SCAD manages Scottish Ministers' shareholder responsibilities for two public bodies – Ferguson Marine and Prestwick Airport. This activity can involve three levels of shareholder authorisation: (i) issuing routine shareholder approvals, (ii) shareholder authorisation – where Ministers issue Written Authorities governed by the Public Finance and Accountability Act 2000 which are relevant only to bodies audited by Audit Scotland and (iii) Shareholder Directions where Ministers operate in their capacity as sole shareholders of a business.
31. Requests for the first category, shareholder approvals, are commonplace and arise frequently in the normal course of business. Details of these approvals are not currently held centrally or made public. The second and third categories – written authorities and shareholder direction – arise infrequently if at all.

(i) *Shareholder approvals*

32. The Portfolio Accountable Officer is responsible for putting in place a framework document to provide a governance structure for the business to work effectively with the government, including offering clarity where approvals are required.
33. Whilst framework documents do not confer any legal duties or powers, they articulate the various instances where businesses are expected to liaise and/or gain approval from their sponsor division, and they confirm where Ministers are required to authorise strategic company matters. This includes approving the corporate and annual business plans; any budgets including loans and grant in aid for any investments as well as securing the necessary Parliamentary approvals for those monies. Ministers' approval is also required to confirm the appointment and the remuneration package of the person holding the office of Accountable Officer of the business.
34. Compliance with the framework document is the responsibility of the business itself, specifically its executive team. The Accountable Officer of the business is personally responsible and answerable to the Scottish Parliament for ensuring the resources made available to the business are used economically, effectively and efficiently. The Chair may also be asked to provide evidence to the Scottish Parliament and is responsible for effective communication with the Board in ensuring that the framework document alongside the objectives of Scottish Ministers are understood and considered as part of Board decision making.

(ii) *Written authorities*

35. Unlike shareholder approvals, requests for written authorities from Scottish Ministers are infrequent and they are always made public. Since devolution, the Scottish Government has issued only six written authorities². The Public Finance and Accountability (Scotland) Act 2000 defines written authority as a document that grants permission to an Accountable Officer to take an action that might otherwise be inconsistent with their responsibilities. After a written authority from Scottish Ministers is granted, the Accountable Officer must provide copies of the request and written authority to the Auditor General for Scotland and the Clerk to the Public Audit Committee.

(iii) *Shareholder directions*

36. Scottish Ministers as sole shareholder of a business hold common law and statutory powers under the Companies Act 2006 allowing them to direct company directors by special resolution to take or refrain from taking specified actions.
37. In the case of Ferguson Marine, its framework document sets out the shareholder relationship between the Scottish Government and the business and the means of notifying Parliament of the Board's direction by the shareholder: "...copy the Written Direction or any Oral Direction confirmed in

² [Written authorities from Scottish Ministers - gov.scot](https://www.gov.scot/written-authorities)

writing to the Auditor General for Scotland and the Scottish Parliament, under publication arrangements agreed by the Shareholder”.

38. The good practice on notifying Parliament on ministerial directions is not currently part of the SPFM. This review recommends that the Business Investment section of the SPFM is updated in relation to the strategic commercial assets managed by SCAD.
39. The Permanent Secretary gave an undertaking to the Public Audit Committee on 22 January 2025 that the SCAD transparency review would consider whether any current guidance, including the Scottish Public Finance Manual, should be updated to take account of instances where Ministers direct the Board of a public body to act contrary to its own views.

Chapter 3 – Findings and Recommendations

Key findings

40. This review has looked at the current transparency arrangements of the Scottish Government's Strategic Commercial Assets Division across four workstreams: (i) Commercial Advice Reports, (ii) Freedom of Information, (iii) Non-Disclosure Agreements and (iv) Shareholder Authorisation.
41. The review finds there is a strong foundation of existing policy and legal frameworks underpinning the approach to transparency regarding the Scottish Government's management of its strategic commercial assets.
42. The review concludes this foundation can be built upon and enhanced in several respects. Therefore, it recommends to Scottish Ministers a series of steps to improve transparency whilst protecting the commercial interests of its business shareholdings. This chapter outlines the review's eight recommendations.

Recommendations

Workstream 1: Commercial Advice Reports

43. SCAD regularly commissions advice from external advisers to supplement in-house expertise. It is right and proper that key decisions relating to commercial enterprises are informed by thorough due diligence.
44. There is often a need for a high level of confidentiality when dealing with sensitive commercial matters and preparing advice to ministers. It would not be appropriate to publish unredacted commercial advice in real time in most cases.
45. The passage of time, though, can impact the sensitivity of commercial advice and processes are required to ensure that commercial advice is assessed, managed and ultimately published appropriately. Good procurement and contract management processes are essential to facilitate confidence in information sharing. The following recommendations are intended to enhance transparency in relation to commercial advice reports commissioned by SCAD:
 - 1) **Create a webpage with up-to-date information on the government's Strategic Commercial Assets Division and its work.**
 - 2) **Establish a transparency assurance panel to review the sensitivity status of material recorded in SCAD's register of commercial advice on a six-monthly cycle.**
 - 3) **Identify commercially sensitive information at the outset of contractual relationships as part of the procurement process.**
 - 4) **Incorporate terms and conditions in the commissioning of external commercial advice to promote access to information once the assignment is complete.**

Workstream 2: Freedom of Information

46. The Scottish Government has adopted OSIC's model publication scheme. This review considered data which demonstrates that the Strategic Commercial Assets Division is performing well in responding to FOI requests on time.
47. A regular report of FOISA cases will be published on the SCAD webpage.

Workstream 3: Non-Disclosure Agreements

48. The review finds that NDAs are being used appropriately in the division's work to protect commercially sensitive information. Where they have been used the NDAs have been confined to the handling of commercial information. NDAs will remain a required tool to allow sensitive commercial information to be shared with confidence between parties involved in due diligence and commercial assurance activity.
49. The following recommendations are proposed in relation to the design, use and retention of NDAs:

- 5) Develop and publish a policy for the appropriate use of NDAs relating to strategic commercial assets.**
- 6) Publish the number of NDAs signed by SCAD bi-annually.**

Workstream 4: Shareholder Authorisation

50. The legal and policy frameworks that govern shareholder approvals for commercially focused public bodies are well-established. The recommendations below seek to improve transparency specifically for the businesses within the remit of the Strategic Commercial Assets Division:
- 7) Publish a summary all shareholder approval requests from the businesses sponsored by the division annually.**
 - 8) Update the Business Investment Framework section of the SPFM to be clear when Parliament should be notified of Ministerial directions to commercially focused public bodies.**



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